



Fertilizer: Higher Urea offtake during 4Q to lift sector's profitability

January 27, 2023

Muhammad Atif
Muhammad.atif@alphacapital.com.pk

Higher Urea offtake during 4Q to lift sector's profitability

With the onset of result season, we present result preview of Akseer Fertilizer universe. We expect profitability of our sample companies to increase by 40% YoY to PKR 23.6bn during 4QCY22.

- **Higher Urea offtake coupled with improved pricing to lift profitability**
 - As per the provisional numbers, Urea offtake is expected to increase by 9% YoY to ~1.84mn tons during 4Q as compared to 1.69mn tons in SPLY. This could mainly be attributed to seasonality and pre-buying in December (offtake up 39% YoY) due to anticipation of price hike.
 - During 4Q, average urea prices stood at PKR 2,409/bag, up ~28% YoY providing further boost to overall profitability of our sample companies.
 - On the contrary, DAP offtake is likely to remain 468k tons in 4Q, down 31% YoY. This expected decline is mainly on the back of delay in Rabi crops sowing post floods and higher DAP prices averaging at PKR 10,841/bag in 4Q vs PKR 7,827/bag in SPLY.
 - Consequently, gross-margins of our Fertilizer universe are expected to increase by 3pp to 30% during the 4Q.
- **Super tax and higher finance cost to weigh on CY22 earnings**
 - Despite 4% YoY higher urea offtake and improved prices, the earnings of our sample companies are expected to decline by 12% YoY to PKR 59.6bn. This decline mainly comes from the imposition of super tax and higher finance cost amid high interest rates. Furthermore, 36% YoY dip in DAP offtake to ~1.2mn tons during CY22 is also expected to dent earnings.

Akseer Fertilizer Universe- Financial Estimates						
	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
Revenue	152,483	184,345	21%	463,954	566,821	22%
Cost of goods sold	110,718	129,073	17%	315,766	389,793	23%
Gross profit	41,767	55,272	32%	148,189	177,028	19%
<i>Gross Margins</i>	27%	30%	3%	32%	31%	-1%
Selling & Admin	9,822	11,115	13%	35,028	42,391	21%
Operating Profits	31,945	44,157	38%	113,161	134,637	19%
Other Income	3,635	5,287	45%	23,498	27,837	18%
Other Expenses	1,645	6,042	267%	15,576	24,721	59%
Finance Cost	1,926	5,310	176%	8,239	14,898	81%
PBT	25,632	35,714	39%	99,939	115,659	16%
Tax	8,823	12,111	37%	32,086	56,005	75%
PAT	16,811	23,603	40%	67,854	59,653	-12%

Akseer Fertilizer Universe- EPS								
	3QCY22	4QCY21	4QCY22E	QoQ	YoY	CY21	CY22E	YoY
FFC	4.12	4.72	5.60	36%	19%	17.21	17.07	NM
EFERT	3.13	4.62	4.10	31%	-11%	15.80	11.29	-29%
FFBL	-1.31	0.19	1.85	NM	894%	4.95	3.18	-36%
FATIMA	1.93	2.09	4.10	112%	96%	8.80	8.81	NM

Akseer Fertilizer Universe- DPS					
	3QCY22	4QCY21	4QCY22E	CY21	CY22E
FFC	3.18	4.65	4.50	14.50	14.25
EFERT	3.00	5.00	4.00	16.50	12.50
FATIMA	-	3.50	3.75	3.50	3.75

Engro Fertilizer Ltd. (EFERT)

- EFERT is expected to report earnings of PKR 5.5bn (EPS PKR 4.10), down 11% YoY. This will take CY22 EPS to 11.29, down 29% YoY, due to 16% YoY decline in offtake to 1.9mn tons. Along with the result, we expect the company to announce a final cash dividend of PKR 4/share.
- During 4Q, EFERTs' Base-plant remained non-operational for almost 2 months due to the ATA, while EnVen plant was also offline for approx. 2 weeks due to breakdown. Resultantly, Urea offtake declined by 25% YoY to 414k tons.
- EFERT's gross margin is expected to contract to 29% as compared to 33% in SPLY owing to lower offtake, higher repair and maintenance cost and inflationary pressures.
- Moreover, finance cost is expected to increase by 164% to PKR 888mn owing to higher borrowings amid rising interest rates.
- We have a 'HOLD' recommendation on EFERT. Our Dec-23 PT of PKR 70/share provides a downside of 12.4% along with a dividend yield of 20.1%.

Financial Estimates (PKR Mn)						
	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
Net Sales	39,621	43,057	9%	132,363	153,933	16%
Cost of Sales	26,571	30,673	15%	88,289	109,245	24%
Gross Profit	13,050	12,384	-5%	44,074	44,688	1%
Distri. & Admin. Exp.	3,074	2,756	-10%	10,430	10,664	2%
Other Income	362	397	10%	1,790	1,701	-5%
Other Charges	956	204	-79%	2,641	2,208	-16%
Finance Cost	337	888	164%	1,602	2,528	58%
Unwinding of GIDC	(787)	(270)	-66%	(1,301)	(1,286)	-1%
Profit Before Taxation	8,258	8,663	5%	29,890	29,704	-1%
Taxation	2,086	3,184	53%	8,798	14,630	66%
Net Income	6,172	5,479	-11%	21,093	15,073	-29%
EPS	4.62	4.10	-11%	15.80	11.29	-29%
DPS	5.00	4.00		16.50	12.50	
Key Ratios:						
Gross Margin	33%	29%		33%	29%	
Operating Margin	25%	22%		25%	22%	
EBITDA Margin	22%	24%		28%	24%	
Pre-tax margin	21%	20%		23%	19%	
Net Margin	16%	13%		16%	10%	

Fauji Fertilizer Company Ltd. (FFC)

- FFC is scheduled to announce its 4Q results on 30th January, 2023. We expect the company to announce an unconsolidated earnings of PKR 7.1bn (EPS PKR 5.60), up 19% YoY. This will take CY22 EPS to PKR 17.3. Along with the result, we expect the company to announce a final dividend of PKR 4.50.
- Gross margin is expected to clock in at 43% during 4Q, up 10pp compared to SPLY, on the back of higher urea prices (+27% YoY). We also expect company to record higher repair and maintenance charges, as Plant-I remained offline for 18 days due to scheduled turn-around during the quarter.
- Other income is anticipated to clock in at PKR 3.5bn (+75% YoY) in 4Q owing to higher income on short-term investments.
- Finance cost is expected to clock in at PKR 1.9bn (+135% YoY) in 4Q due to higher interest rates.
- We have a 'BUY' recommendation on FFC. Our Dec-23 PT of PKR 110/share provides an upside of 4.2%, along with a dividend yield of 15.4%.

Financial Estimates (PKR Mn)						
	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
Net Sales	35,059	30,501	-13%	108,651	109,681	1%
Cost of Sales	23,556	17,398	-26%	69,772	66,238	-5%
Gross Profit	11,502	13,103	14%	38,879	43,443	12%
Distri. & Admin. Exp.	2,359	2,654	13%	8,409	9,575	14%
Other Income	2,005	3,507	75%	7,919	13,796	74%
Other Charges	844	930	10%	2,946	3,203	9%
Finance Cost	840	1,979	136%	2,292	5,206	127%
Unwinding of GIDC	627	414	-34%	2,441	2,004	-18%
Profit Before Taxation	8,468	10,633	26%	30,339	36,900	22%
Taxation	2,460	3,509	43%	8,443	14,933	77%
Net Income	6,008	7,124	19%	21,896	21,967	0%
EPS	4.72	5.60	19%	17.2	17.3	0%
DPS	4.65	4.50		14.50	13.48	
Key Ratios:						
Gross Margin	33%	43%		36%	40%	
Operating Margin	26%	34%		28%	31%	
EBITDA Margin	28%	36%		30%	33%	
Pre-tax margin	24%	35%		28%	34%	
Net Margin	17%	23%		20%	20%	

Fauji Fertilizer Bin Qasim Ltd. (FFBL)

- FFBL is scheduled to announce its 4Q financial results on 30th January, 2023. The company is expected to announce unconsolidated earnings of PKR 2.39bn (EPS 1.85), up 893% YoY. This will take CY22 EPS to 3.18, down 36% YoY. We do not expect company to announce dividend.
- Revenue is expected to go up by 49% YoY to PKR 62.7bn during 4Q, due to 32% YoY increase in DAP offtake to 158k tons.
- Gross margins are expected to settle at 18% during 4Q owing to better DAP margins amid lower phos-acid prices.
- Finance cost will likely clock in at PKR ~1.6bn (+207% YoY) due to higher interest rates increased short-term borrowing.
- We have a 'BUY' recommendation on FFBL. Our Dec-23 PT of PKR 20/share offers an upside of 45% along with a dividend yield of 14.3%.

Financial Estimates (PKR Mn)						
	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
Net Sales	42,085	62,674	49%	110,452	156,174	41%
Cost of Sales	34,449	51,439	49%	88,301	127,005	44%
Gross Profit	7,637	11,235	47%	22,152	29,169	32%
Distri. & Admin. Exp.	2,459	3,541	44%	7,241	8,592	19%
Other Income	895	977	9%	9,111	6,307	-31%
Other Charges	(2,188)	3,134	NM	2,548	11,196	339%
Finance Cost	518	1,588	207%	2,338	4,394	88%
Unwinding of GIDC	282	379	34%	1,254	1,082	-14%
Profit Before Taxation	3,206	3,570	11%	11,525	10,213	-11%
Taxation	2,966	1,178	-60%	5,134	6,107	19%
Net Income	241	2,392	893%	6,391	4,106	-36%
EPS	0.19	1.85	893%	4.95	3.18	-36%
DPS	-	-		-	-	
Key Ratios:						
Gross Margin	18%	18%		20%	19%	
Operating Margin	12%	12%		13%	13%	
EBITDA Margin	13%	13%		14%	14%	
Pre-tax margin	8%	6%		10%	7%	
Net Margin	1%	4%		6%	3%	

Fatima Fertilizer Company Ltd. (FATIMA)

- FATIMA is expected to report an unconsolidated EPS of PKR 4.10 during 4Q, up 96% YoY. This will take CY22 EPS to 8.81. Along with the result, we expect the company to announce a final dividend of PKR 3.75.
- Topline of the company is expected to grow by 35% YoY to PKR 48.1bn in 4Q mainly due to higher fertilizer prices and better offtake.
- Urea offtake of the company is expected to clock in at 357k tons up 42% YoY during the quarter due to better product availability on back of uninterrupted RLNG supply to its Sheikhpura Plant. Gross margins are expected to clock in at 39%, due to lower phosphoric rock prices.
- Finance cost of the company is expected to grow by 270% YoY to PKR 855mn due to higher interest rates.
- We have a 'BUY' recommendation on FATIMA. Our Dec-23 PT of PKR 38/share offers an upside of 26% along with a dividend yield of 19.8%.

Financial Estimates (PKR Mn)						
	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
Net Sales	35,718	48,113	35%	112,488	147,033	31%
Cost of Sales	26,142	29,563	13%	69,404	87,305	26%
Gross Profit	9,577	18,550	94%	43,084	59,728	39%
Distri. & Admin. Exp.	1,930	2,165	12%	8,948	13,560	52%
Other Income	374	406	9%	4,677	6,034	29%
Other Charges	1,829	1,184	-35%	4,677	6,034	29%
Finance Cost	231	855	270%	2,007	2,770	38%
Unwinding of GIDC	83	66	-20%	368	280	-24%
Profit Before Taxation	5,700	12,848	125%	28,185	38,842	38%
Taxation	1,311	4,240	223%	9,711	20,335	109%
Net Income	4,390	8,608	96%	18,474	18,507	0%
EPS	2.09	4.10	96%	8.80	8.81	0%
DPS	3.50	3.75		3.50	3.75	
Key Ratios:						
Gross Margin	27%	39%		38%	41%	
Operating Margin	21%	34%		30%	31%	
EBITDA Margin	22%	33%		35%	35%	
Pre-tax margin	16%	27%		25%	26%	
Net Margin	12%	18%		16%	13%	

Disclosures and Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as “JV” and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV’s Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment-banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by ‘AC’ on the cover of this report, has also been involved in the preparation of this report, and is a member of JV’s Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal,
Karachi

T: +92-21-34320359-60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8,
Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk