

Fertilizer: Profitability to grow by 35% YoY in CY21

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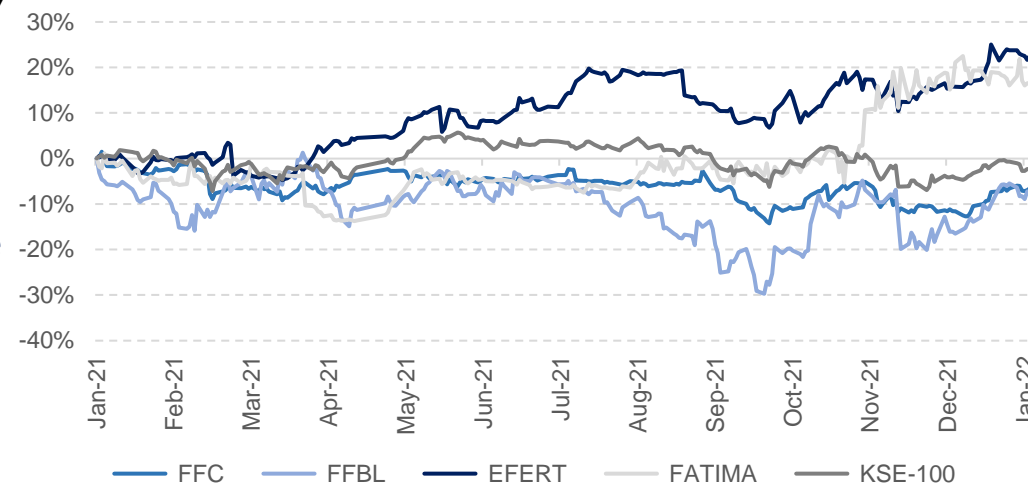
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CY21: A year of strong earnings for the fertilizer sector

With the onset of the annual results season, we present the CY21 result preview of Akseer’s fertilizer universe. We expect the sector’s profitability to rise 35% YoY to PKR 71bn in CY21. For 4QCY21, fertilizer universe profitability is expected to clock in at PKR 23bn, up 25% QoQ and 9% YoY.

- Urea offtake to clock in at 6.3mn tons in CY21, up 5% YoY**
 - During 4QCY21, we expect Urea offtake of ~1.7mn tons, down 4.1% QoQ and 7.7% YoY due to pre buying in 3QCY21 in wake of rising international Urea prices. Cumulatively, CY21 urea offtake will aggregate ~6.3mn tons, up 5% YoY, due to overall improved farm economics and better crop support prices. This will be the third consecutive year that country’s urea sales will cross 6mn tons mark.
 - DAP offtake during 4QCY21 is expected to clock in at ~0.68mn tons up 13% QoQ, down 15% YoY. However, for CY21, DAP offtake is expected to reach at ~1.9mn tons down ~13% YoY due to DAP becoming costlier as local DAP prices rose 69% YoY.
- Commodity super cycle led Urea & DAP prices to trade at historic high levels**
 - Urea prices in domestic market during 4QCY21 touched a high of PKR 2,023/bag and averaged at PKR 1,885/bag, up 8% QoQ. Local urea is still available at a 80% discount to international urea prices.
 - On the other hand, local DAP prices increased in tandem with international prices and averaged PKR 7,830/bag in 4QCY21, up 29% QoQ. Current local DAP prices are at historical high levels of PKR 9,700-9,800/bag.

Relative Price Performance



EPS Estimates (PKR)								
	4QCY20	3QCY21	4QCY21E	QoQ	YoY	CY20	CY21E	YoY
FFC	5.55	5.07	5.76	13.6%	3.9%	16.36	18.25	11.6%
FFBL	2.40	1.76	4.09	132.2%	70.7%	2.35	8.85	276.6%
EFERT	5.06	3.30	4.10	24.2%	-18.9%	13.58	15.27	12.5%
FATIMA	1.77	2.27	2.10	-7.7%	18.6%	6.32	8.81	39.4%

Source: PSX, Company Accounts, Akseer Research

'Market-Weight' stance maintained

- Gross margins to clock in at 33% for CY21**
 - We expect gross margins of fertilizer universe to settle at 29.2% during 4QCY21, down 1.9ppt QoQ. Decline in margins is likely due to shrinking margins of EFERT and FATIMA as both companies have started recording higher feedstock gas rates due to expiry of concessionary gas pricing. On the other hand, Fauji group's margins are expected to remain flat QoQ despite higher product prices due to lower quarterly urea and DAP offtake. For CY21, we expect gross margins to clock in at 33% compared to 30% in CY20.
- 'Market-Weight' stance maintained**
 - We have a 'Market-Weight' stance on the fertilizer sector due to limited growth potential as the fertilizer manufacturers are already operating at optimum utilization levels. The sector is trading at CY22F PE and P/B of 5.0x and 1.7x, respectively, and is offering an attractive dividend yield of 14%.
 - With multi year low urea inventory of ~33k tons as of Dec-21 and higher international fertilizer prices, local fertilizer manufacturers are in a sweet spot to pass on any cost impact through price increases.
 - In the absence of any progress on GIDC payment issues, we believe that local fertilizer companies can further increase their payouts.
 - FFC is our top pick with Dec-22 SOTP based PT of PKR 135/share. The stock offers an upside of 27.6% along with a dividend yield of 13.0%.

Dividend Per Share (PKR)						
	4QCY20	3QCY21	4QCY21E	CY20	CY21	PT
FFC	3.40	3.75	4.60	11.20	14.50	135
FFBL	-	-	3.00	-	3.00	29
EFERT	4.00	3.50	4.00	13.00	15.00	80
FATIMA	1.00	-	4.50	2.50	4.50	37

Akseer fertilizer Universe (PKR Mn)						
	4QCY21E	QoQ	YoY	CY20	CY21E	YoY
Net sales	157,111	16.5%	36.6%	358,003	468,582	30.9%
Gross Profit	45,828	9.4%	41.1%	107,212	152,251	42.0%
GP margin	29.2%	-1.9%	0.9%	29.9%	32.5%	2.5%
Selling and Admin	10,941	19.2%	12.3%	32,245	36,280	12.5%
Finance Cost	2,364	7.5%	-2.1%	13,023	8,678	-33.4%
Other income	3,635	-45.3%	-16.1%	15,972	20,031	25.4%
PBT	31,993	19.7%	16.2%	74,525	106,299	42.6%
PAT	22,502	25.6%	9.1%	54,420	73,547	35.1%

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