

Pakistan Equity | Fertilizer | Earnings Preview

April 14, 2022

REP-057

Fertilizers profits likely to rise in 1Q2022 Market-Weight stance maintained



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Earnings likely to grow 5% YoY and 9% QoQ

- We expect Topline Fertilizer Universe earnings to grow by 5% YoY and 9% QoQ in 1Q2022, mainly driven by improvement in earnings of Fauji Fertilizer Bin Qasim (FFBL). Excluding FFBL, earnings are likely to decline by 3% YoY and 8% QoQ due to higher finance cost.
- Urea sales are expected to increase by 16% YoY to 1.6mn tons in 1Q2022, while DAP offtake is likely to decline by 23% YoY to 241k tons during 1Q2022. The same are expected to decline by 4% QoQ and 64% QoQ, respectively.
- Average Urea prices have increased by Rs150/bag to Rs1,933/bag during 1Q2022 as all companies have increased its Urea prices to pass inflationary impact to final consumers.
- DAP prices have also increased by 99% YoY and 20% QoQ to average to around Rs9,500/bag, which is in line with increase in international DAP prices. This has resulted in DAP primary margins to clock in at around US\$222/ton in 1Q2022 compared to US\$148/ton in 1Q2021 and US\$143/ton in 4Q2021.
- Finance cost is expected to increase by 2.4x YoY to Rs3.2bn due to higher interest rate and higher borrowings of the sector.
- We maintain our Market-Weight stance on Pakistan Fertilizer sector. Our preferred play in the sector is Fauji Fertilizer Company Limited (FFC).

Pakistan Urea Expected Off-take in 1Q2022

'000 tons	1Q2022	1Q2021	YoY	4Q2021	QoQ
FFC	627	575	9%	656	-4%
EFERT	536	602	-11%	552	-3%
FFBL	117	70	67%	119	-2%
Others	336	151	122%	359	-6%
Total	1,617	1,398	16%	1,687	-4%

Source: NFDC, Topline Research

Pakistan DAP Expected Off-take in 1Q2022

'000 tons	1Q2022	1Q2021	YoY	4Q2021	QoQ
FFC	25	28	-10%	90	-72%
EFERT	57	54	5%	99	-42%
FFBL	115	117	-2%	275	-58%
Others	44	115	-62%	215	-80%
Total	241	314	-23%	679	-64%

Source: NFDC, Topline Research

Company wise earnings estimates

- **Fauji Fertilizer Company (FFC):** We expect FFC to post unconsolidated EPS of Rs4.7 (+2% YoY) in 1Q2022. The increase in earnings is mainly led by (1) increase in Urea offtake by 9% YoY, and (2) dividend income from Foundation wind energy I and II. However, some of the profit is offset by 10% YoY decline in DAP offtakes and increase in finance cost amid higher interest rate and borrowings.
- The earnings are likely to drop by 1% QoQ amidst (1) decrease in Urea and DAP offtake by 4% QoQ and 72% QoQ, respectively and (2) increase in finance cost. Along with the result, we expect company to announce interim cash dividend of Rs3.75/share.
- **Engro Fertilizers (EFERT):** We expect EFERT's consolidated EPS to be down by 10% YoY to Rs3.9 in 1Q2022 mainly due to (1) decline in Urea offtake by 11% YoY, (2) absence of concessionary feed gas, and (3) higher price of petroleum policy gas amid higher international oil prices.
- The same are expected to drop by 16% QoQ due to (1) decline in Urea and DAP offtake by 3% QoQ and 42% QoQ respectively and (2) absence of reversal of depreciation expense booked 4Q2021 due to change in life of plant and machinery. Along with the result, we expect company to announce interim cash dividend of Rs4.0/share.
- **Fauji Fertilizer Bin Qasim (FFBL):** We expect FFBL to post unconsolidated EPS of Rs1.8 in 1Q2022 compared to EPS of Rs1.0 in 1Q2021. The turnaround is expected due to (1) improvement in gross margins amidst increase in DAP primary margins from US\$222/ton in 1Q2022 to US\$148/ton in 1Q2021, and (2) increase Urea offtake by 67% YoY.
- Earnings are also expected to increase by 10x QoQ due to absence of expected credit losses and impairment on equity investment during the quarter. We do not expect company to announce any dividend in the first quarter.

Pak Fertilizers EPS estimates

Rs	1Q2022E	1Q2021A	YoY	4Q2021A	QoQ
FFC	4.7	4.6	2%	4.7	-1%
EFERT*	3.9	4.3	-10%	4.6	-16%
FFBL	1.8	1.0	85%	0.2	NM

Source: Company Accounts, Topline Research, *Consolidated

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