

Pakistan Equity | Fertilizer | Earnings Preview

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REP-057

Fertilizers profits (Excl. FFBL) likely to be stable in 2Q2023
Profits expected to decline slightly to Rs11.8bn

 CFA Society
Pakistan
Best Local Brokerage
House 2015-16, FY2020

ASIAMONEY
Best Local Brokerage House
Brokers Poll 2011-14, 2016-22

 COUNTRY
AWARDS
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2018
FinanceAsia
Best Brokerage
House 2018,19-20,23

 2019
FINANCE
ASIA
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Best Research
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 ASIAN AWARDS
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Nasheed Malik
nasheed@topline.com.pk
Tel: +9221-35303330 Ext:133
Topline Securities, Pakistan

Company wise earning estimates

- **Fauji Fertilizer Company (FFC):** We expect FFC to post unconsolidated EPS of Rs5.7 (+114% YoY) in 2Q2023. The increase in earnings is mainly led by (1) one-time 10% super tax charge in 2Q2022, and (2) higher finance income due to higher interest rates. This is despite Urea volumes for FFC expected to decrease by 8% YoY. Distribution costs are expected to increase by 52% YoY to Rs3.2bn.
- The earnings, however, are likely to drop by 7% QoQ primarily due to higher effective tax rate compared to 1Q2023. Along with the result, we expect company to announce interim cash dividend of Rs4.0/share, taking 2023 dividend to Rs8.26/share.
- **Engro Fertilizers (EFERT):** We expect EFERT's consolidated EPS at Rs3.4 in 2Q2023 compared to LPS of Rs0.1 in 2Q2022. This is due to (1) one-time 10% super tax charge in 2Q2022, and (2) slight expected improvement in gross margins.
- Earnings are expected to increase by 4% QoQ due to EFERT increasing bag prices at the start of 2Q2023, which would lead to improvement in gross margins. Impact is expected to be diluted by reduction in Urea and DAP sales on QoQ basis and higher effective tax rate.
- Along with the result, we expect company to announce interim cash dividend of Rs3.5/share, taking 2023 dividend to Rs7.0/share.
- **Fauji Fertilizer Bin Qasim (FFBL):** We expect FFBL to post unconsolidated EPS of Rs0.4 in 2Q2023 down 69% YoY mainly due to (1) 24/20% YoY decline in DAP/Urea Sales, (2) expected decline in margins, (3) higher finance costs, and (4) lower other income.
- On a QoQ basis, FFBL recorded LPS of Rs4.2 in 1Q2023. This was mainly on account of Exchange Loss of Rs4.62bn. Rs3.6bn portion among this loss was from a one-time payment due to supplier since July 2022.
- We do not expect the company to announce any dividend with 2Q2023 result.

Pak Fertilizers EPS estimates

Rs	2Q2023E	2Q2022A	YoY	1Q2023A	QoQ	1H2023E	1H2022A	YoY
FFC	5.7	2.6	114%	6.1	-7%	11.7	7.5	55%
EFERT*	3.4	(0.1)	NM	3.3	4%	6.7	4.1	66%
FFBL	0.4	1.4	-69%	(4.2)	NM	(3.8)	2.6	NM

Source: Company Accounts, Topline Research, *Consolidated



Pre-tax earnings (Excl. FFBL) likely to increase by 9% YoY

- We expect Topline Fertilizer Universe earnings (Excl. FFBL) to be down by 3% QoQ to Rs11.8bn in 2Q2023, primarily due to higher selling price (esp. in case of EFERT) being offset by lower Urea and DAP volumes and higher effective tax rate.
- Earnings in 2Q2022 were severely impacted by imposition of one-time 10% super tax. Therefore, profit after tax for 2Q2023 (Excl. FFBL) is likely to depict an increase of 261% YoY. However, pre-tax earnings (Excl. FFBL) are likely to increase by 9% YoY.
- We expect 1H2023 pre-tax earnings (Excl. FFBL) to be up by 13% YoY to Rs38.05bn for the sector.
- Urea sales are expected to decrease by 8% YoY while also anticipated to be down by 9% QoQ to 1.5mn tons in 2Q2023. DAP offtake is likely to decrease by 25% YoY while up by 3% QoQ to 252k tons during 2Q2023.
- This is likely to take 1H2023 Urea and DAP sales to 3.1mn tons (-5% YoY) and 496k tons (-15% YoY), respectively.
- Average Urea prices during 2Q223 remained in the range of Rs2,900/bag to Rs3,000/bag as all companies (Except FFC) increased Urea prices to pass on impact of higher gas cost to final consumers. The current average MRP of all Urea manufacturers is ~Rs3,100/bag.
- DAP prices have increased by 2% YoY and have declined slightly on QoQ basis to average around Rs10,000/bag. International DAP prices have declined by approx. 50% YoY and by 13% QoQ in 2Q2023, however, this decline has been offset by devaluation of PKR.
- Finance cost (Excl. FFBL) in 2Q2023 is expected to increase by 32% YoY to Rs2.01bn due to higher interest rate prevalent in the quarter.
- We maintain our Market-Weight stance on Fertilizer sector. Our preferred play is Engro Fertilizers (EFERT) and Fauji Fertilizer Company Limited (FFC).

Pakistan Urea Expected Off-take in 2Q2023

	'000 tons	2Q2023	2Q2022	YoY	1Q2023	QoQ	1H2023	1H2022	YoY
FFC		593	643	-8%	631	-6%	1,224	1,275	-4%
EFERT		484	549	-12%	551	-12%	1,035	1,098	-6%
FFBL		116	144	-20%	88	32%	204	261	-22%
Others		284	278	2%	354	-20%	638	614	4%
Total		1,477	1,613	-8%	1,623	-9%	3,101	3,247	-5%

Source: NFDC, Topline Research

Pakistan DAP Expected Off-take in 2Q2023

	'000 tons	2Q2023	2Q2022	YoY	1Q2023	QoQ	1H2023	1H2022	YoY
FFC		24	24	0%	23	4%	48	50	-4%
EFERT		36	54	-33%	45	-19%	81	111	-27%
FFBL		149	197	-24%	127	17%	277	311	-11%
Others		42	60	-31%	49	-14%	91	111	-18%
Total		252	335	-25%	245	3%	496	583	-15%

Source: NFDC, Topline Research



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