

# Pakistan Fertilizer

## 2QCY23 Preview: Supertax to restrict profitability

As per provisional figures, urea offtakes are expected to clock in at 1.47mn tons in 2QCY23 witnessing a decline of 8%/9% YoY/QoQ. Similarly, DAP offtakes also remained under pressure during the quarter and expected to clock in at 0.25mn tons, down by 25% YoY in 2QCY23. Furthermore, in federal budget FY24 government announced imposition of 10% supertax from tax year 23 and onwards, which would result in higher effective tax rate for the quarter. We expect EFERT, FFC and FFBL to post EPS of PKR2.76, PKR4.88 and PKR1.72, respectively in 2QCY23.

### EFERT PA – Lower offtakes amid plant shutdown

EFERT is expected to post consolidated PAT of PKR3.7bn (EPS: PKR2.76) in 2QCY23, compared to LAT of PKR0.07bn (LPS: PKR0.07) in SPLY. EFERT's urea offtakes are expected to clock in at 484kt in 2QCY23 down by 12% YoY/QoQ amid 23 days base plant shutdown during May'23 for unscheduled maintenance. Wherein, we expect gross margins to clock in at 30% up by 5.1ppts QoQ amid higher urea prices. Effective tax rate during the quarter is expected to clock in at 53% vs. 35% in 1QCY23 amid imposition of super tax. Along with the result, we expect EFERT to announce cash dividend of PKR2.5/sh taking 1HCY23 DPS to PKR6.0. However, any adjustment in deferred taxation due to change in tax rate can result in higher taxation charges. Thus, resulting in lower bottom line.

### FFC PA – Higher prices to mitigate tax impact

FFC is expected to post PAT of PKR6.2bn (EPS: PKR4.88) in 2QCY23, compared to PKR2.4bn (EPS: PKR2.64) in SPLY up by 85% YoY. Company's urea offtakes decreased by 8%/6% YoY/QoQ, while DAP offtakes recorded an decrease of 2%/6% YoY/QoQ. Despite lower offtakes, revenue is likely to increase by 18% YoY to clock in at PKR33bn amid higher urea prices. We expects company's gross margins to increase by ~200bps QoQ. Imposition of supertax is likely to take ETR to 49% vs. 35% in 1QCY23. Along with the result, company is expected to announce cash dividend of PKR3.5/sh taking 1HCY23 DPS to PKR7.76.

### FFBL PA – Absence of exchange loss to augment profitability

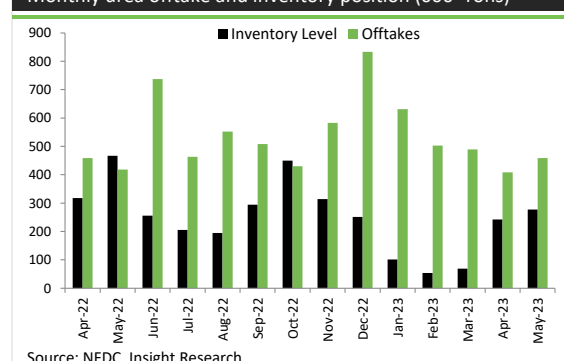
FFBL is expected to post PAT of PKR2.2bn (EPS: PKR1.72) in 2QCY23 compared to PAT of PKR1.7bn (EPS: 1.38) SPLY, to highlight company posted loss of PKR5.4bn in 1QCY23. The turnaround in profitability is mainly attributable to absence of exchange loss during this quarter coupled with increase in urea and DAP offtakes by 32% and 17% QoQ, respectively. FFBL's DAP and urea offtakes are expected to clock in at 149kt and 116kt, respectively, in 2QCY23, down by 24% and 20% YoY. We expect gross margins to clock in at ~18%, up by 11ppts QoQ amid higher DAP margins and elevated urea prices. Finance cost is expected to increase by 2.4x YoY attributable to increase in debt levels coupled with higher financing rate.

**Fertilizer Sector 2QCY23 Earning Preview**

EPS	2QCY23E	2QCY22	YoY	1QCY23	QoQ	DPS
EFERT*	2.76	(0.07)	NM	3.30	-16%	2.50
FFC	4.88	2.64	85%	6.08	-20%	3.50
FFBL	1.72	1.38	24%	(4.20)	NM	-

Source: Company accounts, Insight Research

\* Consolidated

**Monthly urea offtake and inventory position (000' Tons)**


Source: NFDC, Insight Research

**Expected Urea offtakes 000' Tons**

	2QCY23*	2QCY22	YoY	1QCY23	QoQ
FFC	594	643	-8%	631	-6%
EFERT	484	549	-12%	551	-12%
FFBL	116	144	-20%	88	32%
Others	284	278	2%	354	-20%
<b>Total</b>	<b>1,477</b>	<b>1,613</b>	<b>-8%</b>	<b>1,623</b>	<b>-9%</b>

Source: NFDC, Insight Research

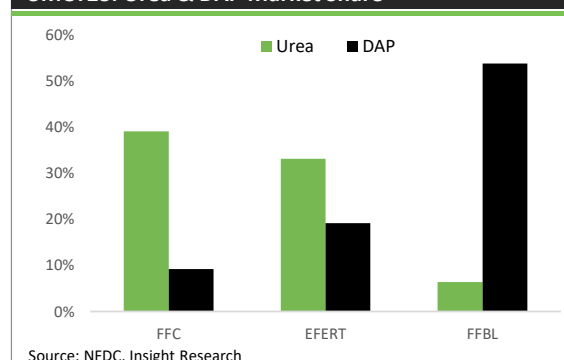
\* Provisional

**Expected DAP offtakes 000' Tons**

	2QCY23*	2QCY22	YoY	1QCY23	QoQ
FFC	25	24	2%	23	6%
EFERT	36	54	-33%	45	-19%
FFBL	149	197	-24%	127	17%
Others	42	60	-31%	49	-14%
<b>Total</b>	<b>252</b>	<b>335</b>	<b>-25%</b>	<b>245</b>	<b>3%</b>

Source: NFDC, Insight Research

\* Provisional

**5MCY23: Urea & DAP Market Share**


Source: NFDC, Insight Research

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<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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