

Pakistan Fertilizer

4QCY23 Preview: FFBL to continue momentum

In CY23, urea offtakes remain flat to clock in at 6.64mn tons vs. 6.61mn tons in SPLY. Whereas, DAP offtakes clocked in at 1.56mn tons witnessing an increase of 30% YoY. Fertilizer prices experienced several hikes during the quarter in anticipation of increase in gas tariff. To highlight, gas prices surged to PKR580/mmbtu for feed and PKR1580/mmbtu for fuel wef from Oct,23 for MARI and Nov'23 for SSGCL & SNGPL, compared to the previous rates of PKR302/mmbtu and PKR1,023/mmbtu for feed and fuel, respectively, for fertilizer players on the MARI network. Meanwhile, players on SSGCL and SNGPL were receiving gas at PKR510/mmbtu and PKR1,500/mmbtu for feed and fuel, respectively. The unification of gas prices has narrowed the disparity in urea MRP which was prevailing for last few months. We preview EFERT, FFC and FFBL to post EPS of PKR7.3, PKR7.0 and PKR4.9 in 4QCY23, respectively.

EFERT PA: Lower urea offtakes to dent margins

EFERT is expected to post consolidated PAT of PKR9.8bn (EPS: PKR7.33) in 4QCY23 up by 53%/2% YoY/QoQ amid better product prices and higher offtakes. EFERT's urea offtakes clock in at 600kt in 4QCY23 up by 45% YoY whereas on QoQ basis urea offtakes declined by 13%. The impact of this decline was offset by significant increase in DAP offtakes leading to topline growth of 60%/11% YoY/QoQ to clock in at PKR73.7bn during 4QFY23. We expect gross margins to clock in at 28.4%, down by ~330bps QoQ amid decline in urea offtakes. In 4QCY23, finance cost is expected to remain muted QoQ to clock in at PKR0.5bn. Along with the result, we expect EFERT to announce cash dividend of PKR7.0/sh, taking CY23 DPS to PKR19.5.

FFC PA: EPS to clock in at PKR7.00 in 4QCY23

FFC is expected to post PAT of PKR8.9bn (EPS: PKR7.00) in 4QCY23 up by 71% YoY while declined by 3% QoQ amid decline in urea offtakes which clock in at 594kt, down by 10% QoQ. In 4QCY23, company's revenue is expected to clock in at PKR43.6bn. We expects company's gross margins to increase by ~700bps QoQ to clock in at 38% amid hike in urea prices and possible one-off provision for anticipated gas price hike in last quarter. To highlight, we have not incorporated any reversal of this provision during the quarter. Along with the result, company is expected to announce cash dividend of PKR5.5/sh.

FFBL PA: Higher DAP margins to augment profitability

FFBL is expected to post PAT of PKR6.4bn (EPS: PKR4.93) in 4QCY23 up by 10x/20% YoY/QoQ. The turnaround in profitability is mainly attributable to significant increase in DAP & UREA prices. During 4QCY23, FFBL's DAP and urea offtakes clocked in at 227kt and 83kt, respectively. Company's revenue is expected to clock in at PKR57.0bn in 4QCY23, down by 13%/19% YoY/QoQ amid decline in DAP offtakes. However, we expect gross margins to clock in at ~26.7%, up by 12ppts QoQ amid higher DAP margins. Finance cost is expected to decline by 35%/36% YoY/QoQ amid decline in debt levels. Along with the result we expect FFBL to announce cash dividend of PKR1.0/sh.

Fertilizer Sector 4QCY23 Earning Preview

EPS	4QCY23E	4QCY22	YoY	3QCY23	QoQ	DPS
EFERT*	7.33	4.80	53%	7.17	2%	7.50
FFC	7.00	4.09	71%	7.18	-3%	5.25
FFBL	4.93	0.48	936%	4.11	20%	1.50

Source: Company accounts, Insight Research

* Consolidated

Urea Offtakes 000' Tons

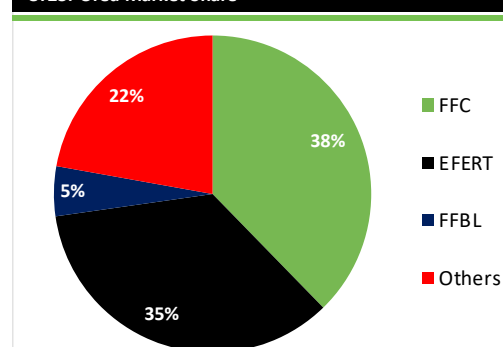
	4QCY23	4QCY22	YoY	3QCY23	QoQ
FFC	594	628	-5%	664	-10%
EFERT	600	413	45%	692	-13%
FFBL	83	156	-47%	73	14%
Others	420	649	-35%	415	1%
Total	1,698	1846	-8%	1,844	-8%

Source: NFDC, Insight Research

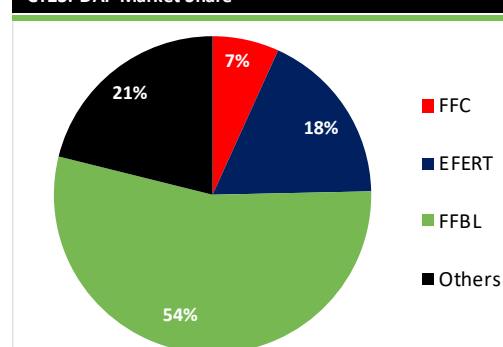
Expected DAP Offtakes 000' Tons

	4QCY23	4QCY22	YoY	3QCY23	QoQ
FFC	28	13	109%	28	-1%
EFERT	116	101	15%	81	43%
FFBL	227	280	-19%	345	-34%
Others	205	71	191%	27	649%
Total	576	465	24%	481	20%

Source: NFDC, Insight Research

CY23: Urea Market Share


Source: PBS, Insight Research

CY23: DAP Market Share


Source: PBS, Insight Research

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- Discounted cash flow (DCF)
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Frequently Used Acronyms

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

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