Day Break

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Sector Update

Fertilizer & chemical compnies 1q cy21 eps

	1QCY21	Y/Y	Q/Q
FFC	3.88	42%	-45%
EFERT	3.04	7.0x	-37%
FFBL	0.83	n.m	-68%
EPCL	4.22	20x	6%

Source: Company Accounts, IGI research

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Chemical & Fertilizer

Strong fundametals to drive earnings performance

- The fertilizer sector (FFC, FFBL & EFERT) is expected to post earnings of PKR 10.07bn as against PKR 4.06bn in the same period last year, translating into a growth of +148% y/y (2.5x y/y). This is primarily driven by an increase in sales and higher DAP margins.
- FFC is expected to amass earnings of PKR 4.9bn (EPS: PKR 3.88) during 1QCY21. In conjunction with the result we expect FFC to announce an interim cash dividend of PKR 3/share.
- EFERT's earnings are expected to witness a strong growth of 7.0xy/y to PKR 4.0bn (EPS: PKR 3.0) during 1QCY21. In addition, we expect company to pay a cash dividend of PKR 2.75/share.
- FFBL's expected to register a profit of PKR 1.06bn (EPS: PKR 0.83) producing gross profit margins of 20% as compared to a loss of PKR 3.04bn (LPS: PKR 2.36) during 1QCY20. This puts a halt to the past 5 year's trend of producing consecutive negative earnings in 1Q.
- EPCL is all slated to announce its 1QCY21 on Apr 16th Apr, wherein, we expect company to post profit after tax of PKR 3.84bn (EPS: PKR 4.22), up ~20xy/y and +6%q/q respectively. The rise in earnings is mainly attributable to +64% increase in PVC margins along with lowered production backed by gas leakage incident and Covdi-19 situation. In conjunction with the result we expect EPCL to announce an interim cash dividend of PKR 1.25/ share.

Rising Margins to Prop Fertilizer Sector Profitability

The fertilizer sector (FFC, FFBL & EFERT) is expected to post net profit of PKR 10.07bn against PKR 4.06bn in the same period last year, translating into a growth of +148%y/y (2.5xy/y). This is primarily driven by an increase in sales and higher DAP margins. Furthermore, reduction in Finance costs and other Income (FFC and FFBL) also bolstered the profitability.

Company wise we expect FFC to lead the growth chart with projected earnings of PKR 4.9bn (EPS: PKR 3.88) followed by EFERT with a profitability of PKR 4.0bn (EPS: PKR 3.0). While, FFBL is expected to contribute PKR 1.06bn (EPS: PKR 0.83) within the sector's profitability.

Fauji Fertilizer Company Limited (FFC) – Earnings to grow by a hefty 42% Y/Y:

- FFC is expected to amass earnings of PKR 4.9bn (EPS: PKR 3.88) during 1QCY21 registering gross profit margins of 36%, an increase of 3ppts from 1QCY20.
- The increase in profitability is attributable to i) Upsurge in DAP prices (+40% since Sept'20) ii) Contribution by other income owing to announcement of dividend payment of PKR 3.0/sh by AKBL iii) Slashing of Interest rates by 625 bps resulting in reduction in financial charges

(down by -44%y/y) iv) lack of one-off GIDC re-measurement gain amounting to PKR 5.9bn realized in 4QCY20.

- Sequentially, profitability is expected to contract by -45%q/q basis which is mainly led by a -70%q/q decline in DAP offtakes (seasonal factor) which translates into a 26% contraction in top line.
- The company is expected to announce an interim cash dividend of PKR 3.0/sh.

Engro Fertilizers Limited (EFERT) – Profitability to exhibit a growth of 7.0x Y/Y:

- EFERT's earnings are expected to witness a strong growth of 7.0x y/y to PKR 4.0bn (EPS: PKR 3.0) during 1QCY21. This is largely driven by enhanced urea offtakes of 598KT, up by +5%q/q.
- Despite a reduction in DAP offtakes by -80%q/q in 1QCY21 owing to seasonal demand factor, the rise in DAP margins is expected to provide strong support to earnings translating into a top line growth of 2xy/y.
- However, on a sequential basis, earnings are expected to undergo a decline of -32%q/q which is mainly contributed by an absence of one-off GIDC re-measurement gain attained in 4QCY20.
- The company is expected to announce an interim cash dividend of PKR 2.75/sh.

Fauji Fertilizer Bin Qasim Limited (FFBL) – Rising DAP margins to buttress profitability:

- FFBL's expected to register a profit of PKR 1.06bn (EPS: PKR 0.83) producing gross profit margins of 20% as compared to a loss of PKR 3.04bn (LPS: PKR 2.36) during 1QCY20 putting a halt to the past 5 year's trend of producing consecutive negative earnings in 1Q.
- This rebound in profitability has been attained as a result of higher DAP margins as domestic DAP prices have risen by ~ 40% 4QCY20 onwards in view of the tight situation surrounding global demand and supply of DAP.
- Furthermore, the debt leveraged company is expected to have received respite by way of lower interest rate of 7% after slashing of 625bps whereby we expect strain of finance charges on profitability to be lessened by ~ 55%y/y.
- However on a sequential basic, profitability is expected to decline by -68%q/q due to 1) reduction in DAP offtakes by 68%q/q 2) Lack of GIDC re-measurement gain (PKR 2.7bn) in 4QCY20.
- We do not expect any pay-out from the company.

Engro Polymer & Chemical Limited:

EPCL is all slated to announce its 1QCY21 on Apr 16th, wherein, we expect company to post Net profit after tax of PKR 3.84bn (EPS: PKR 4.22), up ~20xy/y and +6%q/q respectively. The rise in earnings is mainly attributable to +64% increase in PVC margins along with lowed production backed by gas leakage incident and Covdi-19 situation.

- Net sales of the company is expected to increase by +105%y/y due to higher PVC prices and low production.
- Gross margins of the company is expected to clock in at +42% as compare to +18% in the same period last year. The rise in gross is mainly accredited to higher core delta. (USD/Ton : 831 vs 508)
- Finance cost of the company is expected to decrease by +45%y/y, mainly due to lower interest rate regime and low borrowing requirement during the quarter.

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