

## Sector

### Fertiliser Sector EPS; 2qCY21

	2q21e	q/q	y/y	1hCy21
FFC	3.7	-19%	-3%	8.3
EFERT	3.4	-21%	17%	7.7
FFBL	1.4	39%	n.a.	2.3

### Fertiliser Sector DPS; 2qCY21

	2q21e	q/q	y/y	1hCy21
FFC	2.8	-21%	0%	6.3
EFERT	3.0	-25%	-25%	7.0
FFBL	0.0	n.a.	n.a.	0.0

## Fertilizer

### Rising Margins and lower Financial charges to drive earnings performance

- We preview earnings for 21Cy21, for our coverage fertilizer companies FFC, FFBL & EFERT. We expect a combined profitability for 2qCy21 of PKR 10.9bn in against PKR 7.6bn in the same period last year, translating into a growth of +45%y/y.
- FFC expected earnings for 2qCY21 at PKR 3.7/share and payout of PKR 2.75/share.
- EFERT expected earnings for 2qCY21 at PKR 3.4/share and payout of PKR 3.0/share.
- FFBL expected earnings for 2qCY21 at PKR 1.4/share and no payout.

### Rising Margins to Prop Fertilizer Sector Profitability

The fertilizer sector (FFC, FFBL & EFERT) is expected to post net profit of PKR 10.9bn in 2QCY21 against PKR 7.6bn in the same period last year, translating into a growth of +45%y/y. This is primarily driven by i) higher Urea and DAP prices ii) Reduction in financial charges owing to 625bps cut in policy rates since Mar'20.

Company wise we expect FFC to lead the growth chart with projected earnings of at PKR 4.8bn or PKR 3.7/share, followed by EFFERT with a profitability of PKR 4.5bn or PKR 3.39/share while, FFBL is expected to contribute PKR 1.7bn or PKR 1.37/share within the sector's profitability.

#### Exhibit: Fertilizer sector 1HCY21 Profitability and payout

in PKR/share								
	2q21e	1q21a	q/q	2q20a	y/y	1h21e	1h20a	y/y
<b>EPS</b>								
FFC	3.7	4.6	-19%	3.8	-3%	8.3	6.6	26%
EFERT	3.4	4.3	-21%	2.9	17%	7.7	3.3	130%
FFBL	1.4	1.0	39%	(0.9)	n.a.	2.3	(3.3)	n.a.
<b>DPS</b>								
FFC	2.8	3.5	-21%	2.8	0%	6.3	5.3	19%
EFERT	3.0	4.0	-25%	4.0	-25%	7.0	4.0	75%
FFBL	-	-	n.a.	-	n.a.	-	-	n.a.

### Fauji Fertilizer Company Limited (FFC)

FFC is expected to amass earnings of PKR 4.8bn or PKR 3.7/share for 2QCY21 compared to PKR 4.82bn or PKR 3.83/share in same period last year, down by -3%y/y (19%q/q) This takes cumulative earnings for 1HCY21 to PKR 10.5bn or PKR 8.3/share compared to PKR 8.3bn or PKR 6.6/share last year same period.

Moreover, we expect a cash dividend of PKR 2.75/share taking total dividend payout to PKR 6.25 for 1HCY21.

## Analyst

### Areasha Ishrat

areasha.ishrat@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

### Shumail Rauf

Shumail.rauf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

- The decline in profitability is attributable to 19%y/y (-3%q/q) decline in urea offtakes; 556kT compared to 684kT last year and 575kT previous qtr. On a sequential basis, profitability is expected to contract by -19%q/q.

Exhibit: Fauji Fertilizer Company Limited (FFC)							
in PKRbn							
Period end (DEC)	2q/21e	1q/21	2020a	4q/20	3q/20	2q/20	1q/20
Net Sales	30.9	21.6	97.7	29.2	24.6	23.2	20.6
<b>Gross Profit</b>	<b>10.6</b>	<b>8.4</b>	<b>31.6</b>	<b>11.8</b>	<b>5.6</b>	<b>7.4</b>	<b>6.7</b>
Gross Profit margin	34%	39%	32%	41%	23%	32%	33%
<b>EBIT</b>	<b>7.8</b>	<b>8.4</b>	<b>26.5</b>	<b>9.3</b>	<b>4.2</b>	<b>7.2</b>	<b>5.8</b>
Tax	2.6	2.2	8.8	3.3	2.0	1.9	1.6
Effective tax rate	35%	27%	30%	24%	50%	28%	32%
<b>Profit after tax</b>	<b>4.7</b>	<b>5.8</b>	<b>20.8</b>	<b>10.5</b>	<b>2.0</b>	<b>4.9</b>	<b>3.5</b>
Net Margins	15%	27%	21%	36%	8%	21%	17%
<b>EPS</b>	<b>3.73</b>	<b>4.57</b>	<b>16.36</b>	<b>8.23</b>	<b>1.56</b>	<b>3.83</b>	<b>2.74</b>
<b>DPS</b>	<b>2.75</b>	<b>3.50</b>	<b>11.20</b>	<b>3.40</b>	<b>2.55</b>	<b>2.75</b>	<b>2.50</b>

Source: IGI Research, Company accounts.

Number of shares: (bn) 1.272

### Engro Fertilizers Limited (EFERT)

EFERT's earnings are expected to post a growth of 17%y/y to arrive at PKR 4.5bn or PKR 3.39/share during 2QCY21. This takes cumulative earnings for 1HCY21 to PKR 10.2bn or PKR 7.69/share as compared to earnings of PKR 4.4bn or PKR 3.34/share in same period last year.

The company is expected to announce an interim cash dividend of PKR 3/share taking total dividend payout to PKR 6/share for 1HCY20.

- Despite a reduction in DAP offtakes by 49%y/y (high base effect) in 2QCY21 owing to high base effect, the rise in DAP margins is expected to offset this the impact of this reduction alongside a decrease in financial charges by 67%y/y, increasing gross margins by 2ppts y/y to arrive at 37%.
- However, on a sequential basis, earnings are expected to undergo a decline of -21%q/q owing to a q/q decline in Urea offtakes owing to seasonal factors.

Exhibit: Engro Fertilizers Limited (EFERT)							
in PKRbn							
Period end (DEC)	2q/21e	1q/21	2020a	4q/20	3q/20	2q/20	1q/20
Net Sales	24.7	29.4	105.8	27.7	37.4	29.9	10.8
<b>Gross Profit</b>	<b>9.2</b>	<b>11.6</b>	<b>34.3</b>	<b>9.4</b>	<b>10.8</b>	<b>10.4</b>	<b>3.6</b>
Gross Profit margin	37%	39%	32%	34%	29%	35%	34%
<b>EBIT</b>	<b>6.8</b>	<b>9.1</b>	<b>23.7</b>	<b>6.8</b>	<b>7.9</b>	<b>6.7</b>	<b>2.3</b>
Tax	1.9	2.9	3.2	0.5	0.2	1.9	0.6
Effective tax rate	30%	34%	15%	8%	2%	33%	49%
<b>Profit after tax</b>	<b>4.5</b>	<b>5.7</b>	<b>18.1</b>	<b>6.6</b>	<b>7.0</b>	<b>3.9</b>	<b>0.6</b>
Net Margins	18%	19%	17%	24%	19%	13%	5%
<b>EPS</b>	<b>3.39</b>	<b>4.30</b>	<b>13.58</b>	<b>4.97</b>	<b>5.27</b>	<b>2.91</b>	<b>0.43</b>
<b>DPS</b>	<b>3.00</b>	<b>4.00</b>	<b>13.00</b>	<b>4.00</b>	<b>5.00</b>	<b>4.00</b>	<b>0.00</b>

Source: IGI Research, Company accounts.

Number of shares: (bn) 1.335

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

We anticipate the company to register a profit of PKR 1.7bn or PKR 1.37/share in 2QCY21 as compared to a loss of PKR 3.04bn or 2.36/share during 1QCY20. This takes cumulative earnings for 2HCY21 to PKR 3.03bn or PKR 2.35/share as compared to a loss of PKR 4.2bn or PKR 3.26/share in same period last year. We do not expect any pay-out from the company.

- The company's bottom line remains on an upward trajectory as a result of higher DAP margins as domestic DAP prices have risen by ~ 43% 4QCY20 onwards in view of the tight situation surrounding global demand and supply of DAP. Consequently, on a yearly basis the company's gross margins are expected to register an increase of 10ppts to arrive at 23%.
- Furthermore, the debt leveraged company continues to receive 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 46%/y.

Exhibit: Fauji Fertilizer Bin Qasim Limited (FFBL)							
in PKRbn							
Period end (DEC)	2q/21e	1q/21	2020a	4q/20	3q/20	2q/20	1q/20
<b>Net Sales</b>	17.0	13.0	83.2	33.3	25.2	15.2	9.6
<b>Gross Profit</b>	<b>3.9</b>	<b>2.5</b>	<b>12.6</b>	<b>7.3</b>	<b>3.9</b>	<b>1.9</b>	<b>(0.6)</b>
Gross Profit margin	23%	19%	15%	22%	16%	13%	-6%
<b>EBIT</b>	<b>3.0</b>	<b>2.7</b>	<b>10.7</b>	<b>7.3</b>	<b>4.5</b>	<b>0.4</b>	<b>(1.4)</b>
EBIT margin	18%	21%	13%	22%	18%	2%	-15%
Profit before tax	2.4	1.7	4.9	5.0	3.7	(0.8)	(3.0)
Tax	0.6	0.4	2.7	1.7	0.6	0.3	0.1
Effective tax rate	25%	26%	55%	33%	17%	-37%	-3%
<b>Profit after tax</b>	<b>1.8</b>	<b>1.3</b>	<b>2.2</b>	<b>3.4</b>	<b>3.0</b>	<b>(1.2)</b>	<b>(3.0)</b>
Net Margins	10%	10%	3%	10%	12%	-8%	-32%
<b>EPS</b>	<b>1.37</b>	<b>0.98</b>	<b>1.70</b>	<b>2.60</b>	<b>2.35</b>	<b>(0.90)</b>	<b>(2.36)</b>
<b>DPS</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Source: IGI Research, Company accounts.

Number of shares: (bn) 1.291

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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Areesha Ishrat	Trainee Analyst	Tel: (+92-21) 111-234-234 Ext: 810	areesha.ishrat@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

<p><b>Lahore Office</b> Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559</p>	<p><b>Islamabad Office</b> Mezzanine Floor, Office 5, 6 &amp; 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861</p>
<p><b>Faisalabad Office</b> Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815</p>	<p><b>Rahim Yar Khan Office</b> Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651</p>
<p><b>Multan Office</b> Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183</p>	

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

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