

## Fertiliser

### Earnings Preview

#### Sep-22: Earnings to take hit amid slowdown in quarter offtake

- We preview 3qCY22 fertiliser sector earnings for our coverage companies EFERT, FFC, and FFBL.
- For 3QCY22 we estimate earnings for FFC to clock in at PKR 4.4/share (DPS: PKR 3.25/share), for EFERT, PKR 2.5/share (DPS: PKR 3.25/share) and for FFBL, PKR 0.2/share (DPS: PKR nil)

We preview 3qCY22 fertiliser sector earnings for our coverage companies EFERT, FFC, and FFBL.

#### Sectors profitability to decline by 29%y/y during 3QCY22 on account of reduced demand

For the period 3QCY22, we expect sector profitability to decline by 29%y/y to PKR 9.3bn taking 9MCY22 total profitability to PKR 27.2bn (down by 26%y/y). Key reasons for lower profitability during the 3QCY22 is lower off-take, higher taxation, higher finance cost and exchange losses (FFBL).

#### Exhibit: Fertiliser Sector Financial Highlights in PKRbn

Period end (DEC)	9MCY22e	3q/22e	2q/22a	1q/22a	9MCY21	3q/21a	2q/21a	1q/21a
Net Sales	277.1	76.3	112.9	87.9	234.7	105.4	65.3	64.0
Cost of Sales	196.5	53.3	80.8	62.3	161.8	76.1	44.1	41.6
Gross Profit	80.6	23.0	32.0	25.6	72.9	29.3	21.1	22.5
Gross Profit margin	29.1%	30.1%	28.4%	29.1%	31.1%	27.8%	32.4%	35.1%
EBIT	68.3	18.9	27.5	21.9	61.8	23.5	18.0	20.3
EBIT margin	24.7%	24.8%	24.4%	24.9%	26.3%	22.3%	27.6%	31.6%
Finance Cost	7.5	2.9	2.4	2.3	4.5	1.6	1.6	1.3
Profit before tax	57.2	15.2	23.4	18.5	51.8	18.7	14.8	18.4
Tax	30.0	6.0	18.9	5.1	14.9	5.6	3.8	5.5
Effective tax rate	52%	39%	81%	28%	29%	30%	25%	30%
Profit after tax	27.2	9.3	4.5	13.4	37.0	13.1	11.0	12.8
Net Margins	10%	12%	4%	15%	16%	12%	17%	20%

#### Exhibit: Company's EPS & DPS in PKR

EPS	9MCY22	3q/22e	2q/22a	1q/22a	9MCY21	3q/21a	2q/21a	1q/21a
FFC	12.0	4.4	2.6	4.9	12.5	5.1	2.8	4.6
FFBL	2.5	0.2	1.0	1.3	4.8	1.8	2.0	1.0
EFERT	6.5	2.5	(0.1)	4.1	11.2	3.3	3.6	4.3
DPS	9MCY22	3q/22e	2q/22a	1q/22a	9MCY21	3q/21a	2q/21a	1q/21a
FFC	9.1	3.25	2.1	3.7	9.9	3.8	2.6	3.5
FFBL	0.0	0.00	0.0	0.0	0.0	0.0	0.0	0.0
EFERT	8.8	3.25	0.0	5.5	11.3	3.3	4.0	4.0

#### Exhibit: Company's Urea & DAP Offtake in '000tons

Urea	9MCY22	3q/22e	2q/22a	1q/22a	9MCY21	3q/21a	2q/21a	1q/21a
FFC	1,785	509	645	631	1,821	690	556	575
FFBL	379	117	145	117	350	130	150	70
EFERT	1,539	411	548	580	1,644	529	533	582
DAP	9MCY22	3q/22e	2q/22a	1q/22a	9MCY21	3q/21a	2q/21a	1q/21a
FFC	53	3	25	25	119	54	37	28
FFBL	382	72	195	115	480	249	114	117
EFERT	168	39	54	75	242	117	51	74

Source: IGI Research, Company accounts.

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### **Fauji Fertiliser Company Limited (FFC): Earnings excepted to take dent amid slower volumes; EPS: PKR4.4/share (9MCY22: PKR 12.0/share)**

FFC's profitability is estimated to record a 13%/y decline to PKR 5.6bn (EPS: PKR 4.4/share) taking 9MCY22 total earnings to PKR 15.2bn (PKR 12.0/share); up by 59%/y.

During the quarter, primary cause of the decline in earnings is lower urea offtake down by 26%/y to 509k.tons compared to previous quarter 645k.tons and 690k.tons last year same quarter.

Similarly, sales of DAP also suffered during the quarter recording a 95%/y decline to a mere 3k.tons compared to 25k.tons in 2QCY22 and 54k.tons last year same quarter.

Considering, company's historic payout we expect a FFC to announce a cash dividend of PKR 3.25/share along with the result, taking 9MCY22 total payout to PKR 9.1/share, slightly down by 8% when compared to last year payout of PKR 9.9/share.

### **Engro Fertiliser Company Limited (EFERT): Sales to keep profitability in-check, improve retention prices to keep gross margins steady; EPS 2.5/share (9MCY22: 6.5/share)**

Similar to FFC, EFERT's earnings are expected to decline by 25%/y to PKR 3.3bn (PKR 2.5/share), taking 9MCY22 cumulative earnings to PKR 8.7bn (PKR 6.5/share) down by 41%/y.

Sales of Urea and DAP during the 3QCY22 are down by 22%/y and 67%/y to 411k.tons and 39k.tons, respectively. Total 9MCY22 period sales are now down by 6%/y to 1,539k.tons and 168k.tons respectively for Urea and DAP.

We expect EFERT to announce an interim dividend of PKR 3.25/share, taking total payout during the 9CY22 to PKR 8.8/share compared to PKR 11.3/share last year.

### **Fauji Fertilizer Bin Qasim Limited (FFBL): Multiple factors to drag earnings; EPS 0.2/share (9MCY22: 2.5/share)**

For FFBL, multiple factors to erode earning for 3QCY22. Firstly DAP sales have severely suffered, whereby FFBL quarter DAP sales shrink to 72k.Tons from 195k.Tons in previous quarter and 249k.tons last year same quarter.

Moreover, exchange loss and lack of dividend will keep overall Ebit in check, while higher finance costs will reduce company's 3QCY22 to PKR 0.3bn (PKR 0.2/share) down by 87%/y. this takes 9MCY22 total earnings to PKR 3.2bn (PKR 2.5/share) which is down by 48%/y compared to last year earnings of PKR 6.2bn (PKR 4.8/share).

We do not expect the company to announce any dividend.

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