Pakistan Fertilizers

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Pakistan
Fertilizer

CY23: A good year for fertilizer earnings

Profitability drivers include high Urea/DAP margins and low debt levels

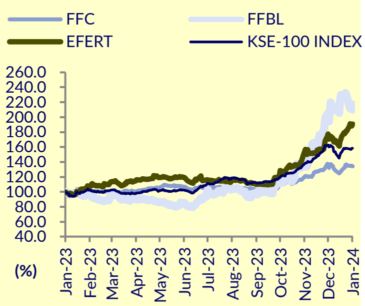
We preview 4QCY23 earnings for FFC, EFERT and FFBL. Profitability of our fertilizer universe will increase substantially on the back of healthy margins resulting from multiple urea price revisions outpacing gas price hikes. Company wise, EFERT is likely to report PAT of PKR11.63bn (EPS: PKR8.71) in 4QCY23 followed by FFC, which is likely to report PAT of PKR9.97bn (EPS: PKR7.84) while FFBL will likely report PAT of PKR6.71bn (EPS: PKR5.19). Annual EPS for CY23 for EFERT/FFC/FFBL is estimated at PKR 19.98/25.30/5.47 respectively. Moreover, we expect EFERT/FFC/FFBL to announce final cash dividends of PKR 7.5/5.0/1.5 per share respectively.

EFERT – High urea offtake & prices to lift profitability: EFERT is expected to report earnings of PKR11.63bn (EPS: PKR8.71) in 4QCY23 as against PKR6.41bn (EPS: PKR4.80) in SQLY, up 81% YoY. This takes CY23 consolidated profitability to PKR26.68bn (EPS: PKR19.98). Urea offtake is expected to increase 45% YoY to 600KT in 4QCY23 as company experienced production outages in ENVEN in SPLY. DAP offtake is also expected to increase by 10% YoY to 116KT. Gross margin is expected to increase to 36% due to higher output prices. Distribution/Admin expenses are expected at PKR3.3/0.7bn respectively. Other expenses are likely to increase to PKR2.0bn due to higher contribution to WWF/WPPF. Furthermore, we expect EFERT to announce final cash dividend of PKR 7.5/sh this quarter.

FFC – Earnings to remain robust: FFC is likely to report earnings of PKR9.97bn (EPS: PKR7.84) in 4QCY23 as against PKR5.21bn (EPS: PKR4.09) in SQLY, up 9%/92% QoQ/YoY. This takes CY23 EPS to PKR25.30, up 61% YoY. Net sales are expected to increase 42% YoY to PKR42.7bn primarily on account of 44% increase in urea retention prices. Despite higher prices, net sales are expected to decline by 3% QoQ due to lower offtake. Gross profit margin is expected to inch up to 41% this quarter, up 10ppts QoQ. Other income is expected to decline 26% QoQ to PKR4.6bn due to no expected dividend flow from power subsidiary. We expect FFC to announce cash dividend of PKR5.0/sh. Moreover, Company posted record high cost of sales in 3QCY23, up 61%/103% QoQ/YoY. Management has not divulged exact cause for the said divergence from consensus estimates. However, if that divergence is due to prudential accrual of input gas at higher cost, then a potential reversal of same can provide upside in the vicinity of PKR4/sh.

FFBL – Higher DAP margin to propel earnings: FFBL is expected to report earnings of PKR6.70bn (EPS: PKR5.19) in 4QCY23 as against PKR0.62bn (EPS: PKR0.48) in SQLY. This takes annual profitability to PKR7.15bn (EPS: PKR5.54). Higher DAP retention, up 4% YoY while lower phosphoric acid cost, down 25% YoY in PKR terms has primarily led to higher profitability. Gross profit margin is expected to increase 11ppts sequentially to 26% in the outgoing quarter. Other income will remain muted at PKR1.24bn due to absence of dividend. Finance cost is expected to decline 31% QoQ to PKR1.6bn due to lower debt burden. Lastly, we expect company to pay dividend of PKR1.5/sh.

Fertilizer vs. KSE100 performance



Source: PSX, Bloomberg

Earnings

EPS (PKR/sh)	4QCY23E	3QCY23	4QCY22	QoQ	YoY	CY23E	CY22	YoY
EFERT	8.71	7.17	4.80	21%	81%	19.97	11.99	67%
FFC	7.84	7.18	4.09	9%	92%	25.30	15.75	61%
FFBL	5.19	4.11	0.48	26%	980%	5.47	1.81	202%
DPS (PKR/sh)								
EFERT	7.5	6.0	5.0	17%	40%	20.0	13.5	44%
FFC	5.0	3.98	3.15	26%	59%	16.39	12.13	35%
FFBL	1.5	0	0	N/A	N/A	1.5	0	N/A

Source: Company Accounts, Alfalah CLSA Research

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