

PAKISTAN



FSL Fertilizer universe 3QCY21E Profitability Highlights

	3QCY21E	3QCY20	YoY	QoQ
FFBL	3.2	2.5	29%	680%
FFC	4.7	3.6	29%	65%
EFERT	3.7	5.3	-29%	5%

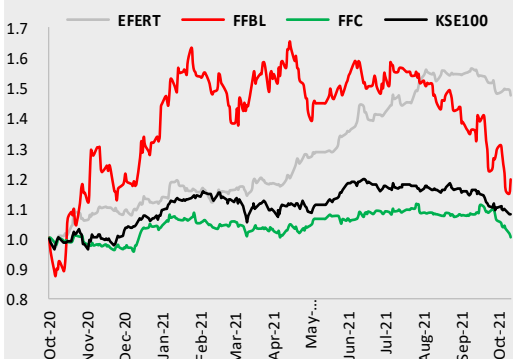
	9MCY21E	9MCY20	YoY
FFBL	4.5	0.3	1580%
FFC	12.1	10.8	12%
EFERT	11.6	8.6	35%

Dividend expectations (Rs/sh)

FFBL	1.0
FFC	3.8
EFERT	3.0

Source: Company accounts, FSL Research, October 2021

FSL Fertilizer universe V/S KSE100 Index



Source: Bloomberg, Foundation Research, October 2021

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Pakistan Fertilizer

Increased pricing power to support profitability

Event

▪ Better Agronomics given increased prices of majority cash crops amid constrained supply allowed fertilizer companies to retain pricing power in Urea/DAP market. We expect FSL fertilizer universe profitability to increase by 2/70% YoY/QoQ in 3QCY21 to Rs15.1bn. Apart from above mentioned factors, increase in universe profitability is attributable to (1) higher Urea offtake amid 6% YoY increase in Urea prices and (2) better DAP margins given constrained supply in international markets. FFBL would outperform others by posting EPS of Rs3.2/sh in 3QCY21 followed by FFC with EPS of Rs4.7/sh. While, EFERT is expected to report decline of 29% YoY in its profitability.

Impact

▪ **Higher Urea offtake and better DAP trading margins to support profitability:** FSL fertilizer universe profitability is expected to increase by 2/70% YoY/QoQ in 3QCY21. Universe Urea offtake is expected to increase by 8% YoY (industry offtake increased by 13% YoY) due to higher offtake in earlier months given expectation of increase in prices due to gas price hike amid resumption of IMF program. Urea prices increased by 6% YoY in 3QCY21. Lower application of phosphate fertilizer in rice/other cash crops amid increased landed cost of DAP resulted in its offtake to decline by 24% YoY (FSL universe offtake ↓ by 26% YoY) in 3QCY21. Furthermore, DAP prices increased by ~69/10% YoY/QOQ in 3QCY21 due to 69% YoY increase in average international prices.

▪ **FFBL profitability to get boost from higher DAP margins and PMP profit share:** We expect FFBL to post EPS of Rs3.2/sh in 3QCY21 (up 29/680% YoY/QoQ). Increase in FFBL profitability is attributable to (1) ~25% YoY increase in Urea offtake amid higher retention prices, (2) ~32% YoY increase in DAP primary margins, (3) decline in loss contribution of food business, (4) ~4.2x increase in share of profit from PMP given higher phosphoric acid prices and (5) lower finance cost. To highlight, FFL loss contribution is expected to decline by 28% YoY to Rs0.24/sh in FFBL profitability. Furthermore, we expect FFBL to resume dividend payout after span of 11 quarters given improved cash flows amid strengthening balance sheet.

▪ **FFC outperformed the industry Urea offtake growth:** FFC profitability is expected to increase by 29/65% YoY/QoQ to Rs4.7/sh in 3QCY21 due to (1) increase in Urea offtake (up 22/24% YoY/QoQ), (2) better DAP trading margins and (3) higher other income given better cash position of the company. Furthermore, FFC DAP offtake declined by ~46% YoY in 3QCY21 due to lower imports by the company.

▪ **Lower offtake and plant maintenance restricted upside in EFERT profitability:** EFERT Urea/DAP offtake is expected to decline by ~9/46% YoY in 3QCY21 that would result in its profitability to decline by 29% YoY in 3QCY21. Despite better Urea retention prices and higher DAP trading margins EFERT profitability would remain restricted due to ending of concessionary gas on feedstock gas for EnVen plant and increased repair & maintenance cost due to turnaround of its EnVen plant in 3QCY21.

Outlook

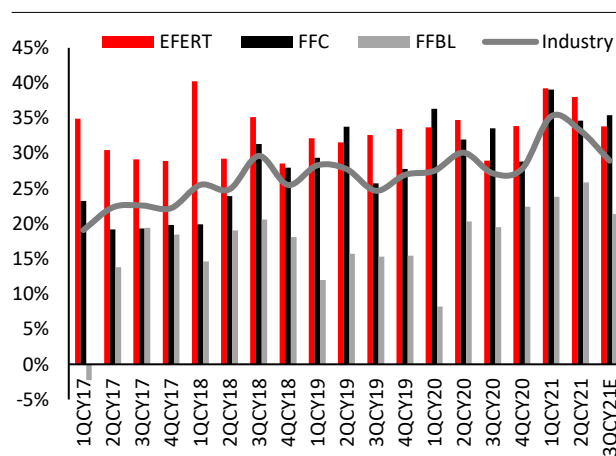
▪ We have an “Outperform” stance on the sector given government efforts for food security amid better pricing of wheat and cash crops. Furthermore, Gov’t subsidy on phosphate fertilizers for Rabi season and constrained supply during rabi season would further strengthen the pricing power of base players.

Fig 1: Fertilizer sector financial highlights 3QCY21E

Rs (mn)	3QCY21E	3QCY20	YoY	QoQ	9MCY21E	9MCY20	YoY
Net sales	110,299	91,503	21%	59%	248,283	207,471	20%
COGS	33,078	13,462	146%	132%	55,918	42,318	32%
Gross profit	31,932	24,856	28%	38%	79,174	58,612	35%
S&A expense	2,168	976	122%	25%	5,310	4,176	27%
Financial charges	1,368	1,254	9%	30%	3,868	5,426	-29%
Other operating expenses	1,476	175	745%	-58%	5,398	447	1107%
Other operating Income	3,490	3,602	-3%	0%	11,374	9,646	18%
PBT	20,969	17,771	18%	63%	52,360	34,675	51%
PAT	15,145	14,909	2%	67%	36,969	25,279	46%
PAT att to owners	15,125	14,888	2%	70%	36,727	25,602	43%
GM	29%	27%			32%	28%	
NM	14%	16%			15%	12%	

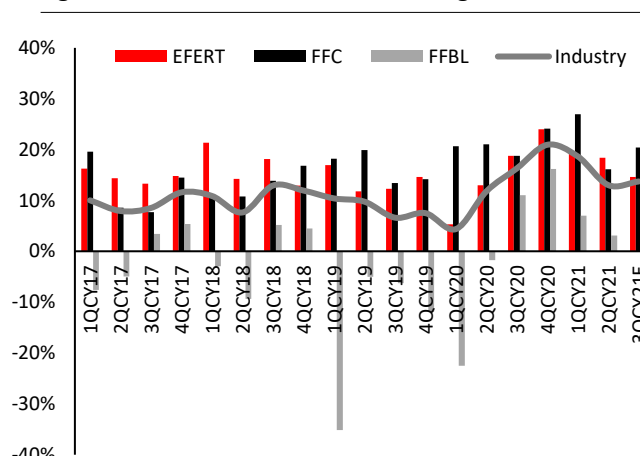
Source: Company Accounts, Foundation Securities, October 2021

Fig 2: EFERT GM to remain higher due to DAP trading



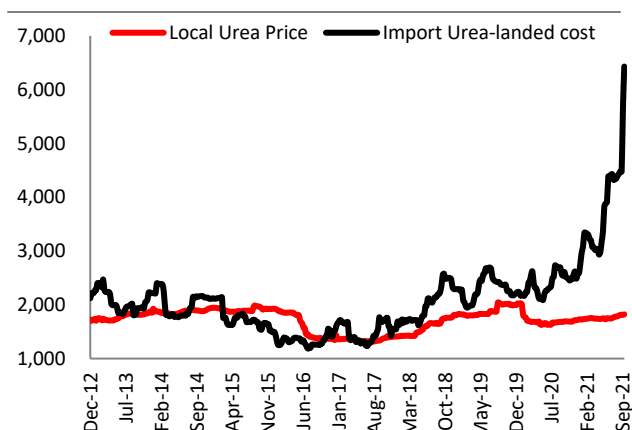
Source: Company acc, FSL Research, October 2021

Fig 3:FFC takes the lead in net margins



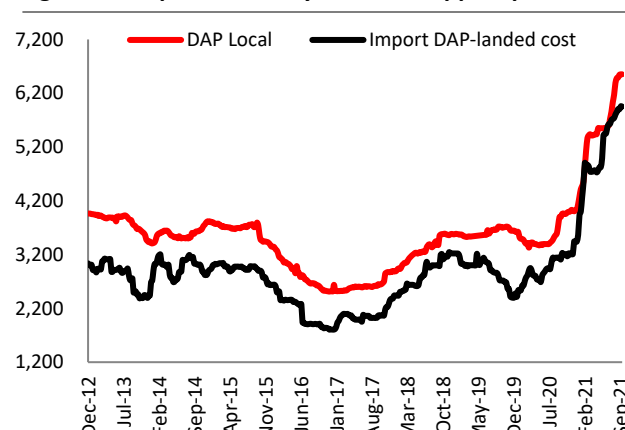
Source: Company acc, FSL Research, October 2021

Fig 4: Significant gap to enhance pricing power



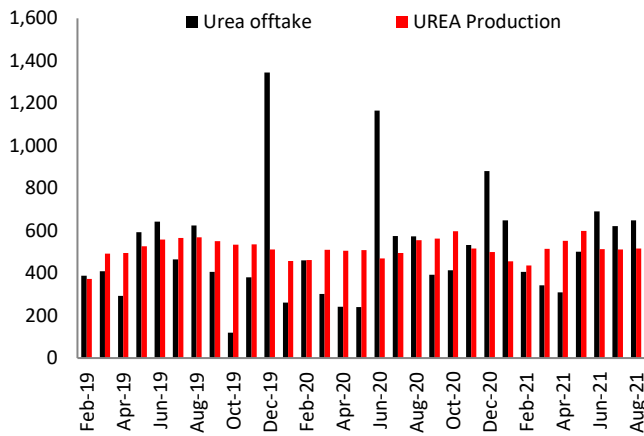
Source: PBS, Bloomberg, FSL Research, Oct 2021

Fig 5: Lower production by China to support prices



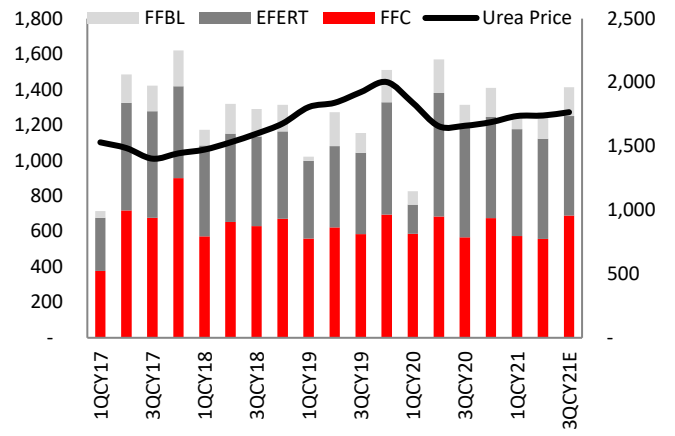
Source: PBS, Bloomberg, FSL Research, Oct 2021

Fig 6: Production to remain on ↓ side in 3QCY21....



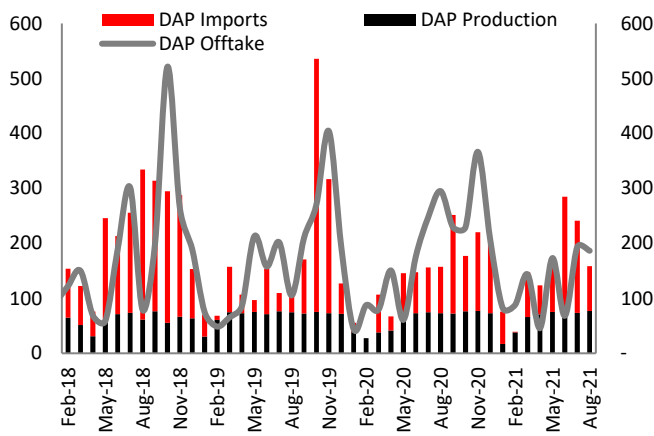
Source: NFDC, FSL Research, October 2021

Fig 7:..given ↑ subsidy requirement for RLNG (K tons)



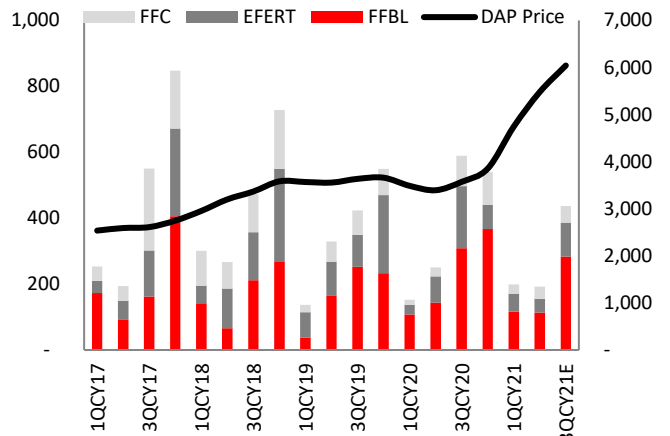
Source: NFDC, FSL Research, October 2021

Fig 8: Lower DAP imports to enhance pricing power



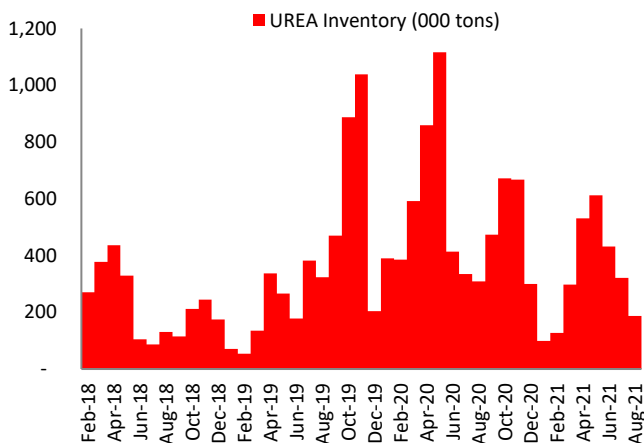
Source: NFDC, FSL Research, October 2021

Fig 9: EFERT/FFC DAP offtake to remain on lower side



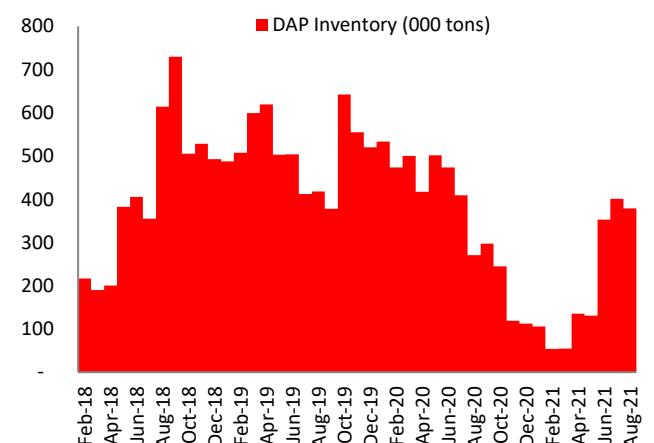
Source: NFDC, FSL Research, October 2021

Fig 10: Inventory to remain on lower side in 3QCY21



Source: NFDC, FSL Research, October 2021

Fig 11: DAP inventory lower given reduced imports



Source: NFDC, FSL Research, October 2021

Abbreviations

CY	Calendar Year
DAP	Di-ammonium Phosphate
FFL	Fauji Food Limited
FML	Fauji Meat Limited
FPCL	Fauji Power Company limited
GIDC	Gas Infrastructure Development Cess
GM	Gross Margin
NM	Net Margin
SPLY	Same period last year
YoY	Year-on-year

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.