Foundation Securities
A Fauji Foundation Group Company
REP-095

PAKISTAN

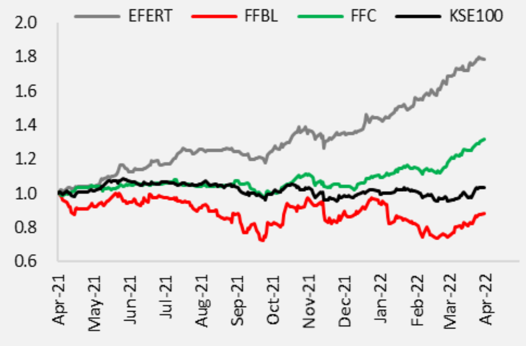
FSL Fertilizer universe 1QCY22E Profitability Highlights

	1QCY22E	1QCY21	YoY	QoQ
FFBL	2.5	0.9	192%	0%
EFERT	4.8	4.3	11%	4%
FFC	3.6	4.6	-22%	-24%

Dividend expectations (Rs/sh)	
FFBL	-
EFERT	4.0
FFC	3.0

Source: Company accounts, FSL Research, April 2022

FSL Fertilizer universe V/S KSE100 Index



Source: Bloomberg, Foundation Research, April 2022

Analyst

Muhammad Awais, CFA m.awais@fs.com.pk
+92 21 35612290 Ext 338
Usman Arif usman.arif@fs.com.pk
+92 21 35612290 Ext 339

Foundation Securities (Pvt) Ltd
Tuesday, April 19, 2022

Pakistan Fertilizer

Pricing power to uplift profitability in 1QCY22

Event

- Better agronomics given increased prices of majority cash crops and constraint supply would allow FSL universe profitability to witness growth of 12% in 1QCY22 despite decline in DAP offtake. Furthermore, in addition to aforementioned factors profitability would increase due to (1) 14% YoY increase in Urea prices, (2) higher Urea offtake and (3) better DAP margins given constrained supply in international markets. Among individual companies, FFBL would outperform peers with EPS of Rs2.5/sh, followed by EFERT with 11% YoY increase in profitability. However, FFC profitability would decline by 22% YoY in 1QCY22 due to decline in dividend income.

Impact

- **Pricing power amid constraint supply to support profitability:** FSL fertilizer sales are expected to increase by 40% YoY in 1QCY22 due to ~14/98% YoY increase in Urea/DAP prices as Urea/DAP offtake increased/decreased by ~3/1% YoY in 1QCY22. Furthermore, DAP offtake declined due to increase in landed cost of imported DAP given average 70% YoY increase in international prices and 10.7% avg rupee depreciation against greenback in 1QCY22. Among other major heads, universe finance cost is expected to increase by 36% YoY in 1QCY22 due to higher interest rates, while increase in other expenses is due to exchange loss booked by the FFBL.

- **FFBL to outperform peers in profitability growth:** We expect FFBL to post EPS of Rs2.5 in 1QCY22 (up 192% YoY). Company profitability would increase due to (1) 67% YoY increase in Urea offtake amid better retention prices, (2) ~37% YoY increase in DAP primary margins, and (3) ~140% YoY increase in share of profit from PMP given higher phosphoric acid prices. To highlight, FFL and FML are expected to contribute LPS of Rs0.46 in FFBL profitability that will be diluted by Rs0.54 EPS contribution from FPCL.

- **Higher DAP trading margins to support EFERT profitability:** EFERT is expected to report EPS of Rs4.8/sh (up 11/4% YoY/QoQ) in 1QCY22. Increase in profitability is attributable to (1) 6% YoY increase in DAP offtake, (2) better Urea retention prices and (3) ~40% YoY increase in DAP trading margins due to inventory built at lower levels. To highlight, EFERT Urea offtake is expected to decline by 11/2% YoY/QoQ in 1QCY22 due to lower carryforward inventory.

- **FFC profitability to remain restricted due to absence of dividend income:** FFC profitability is expected to decline by 22/24% YoY/QoQ to Rs3.6/sh in 1QCY22. We attribute expected decline in company's profitability to (1) 10% YoY decline in DAP offtake, (2) absence of dividend income from portfolio companies and (3) increase in finance cost due to higher short term debt. To highlight, support to FFC would come from higher interest income on cash held by the company and better Urea retention prices.

Outlook

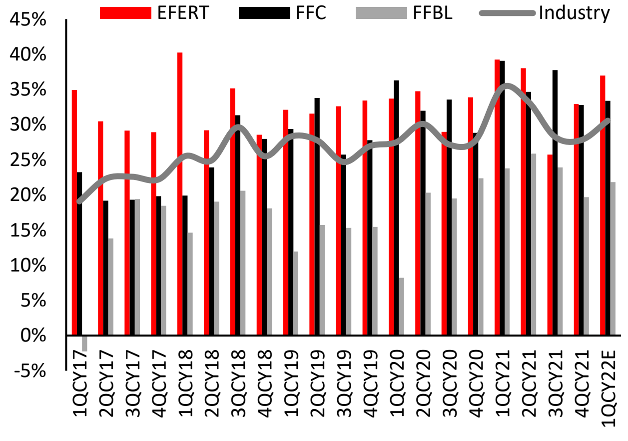
- We have an "Outperform" stance on the sector given government focus on food security amid better pricing of wheat and cash crops. Furthermore, constrained supply of Urea and restricted DAP imports would further strengthen the pricing power of base players.

Fig 1: Fertilizer sector financial highlights 1QCY22E (Rs mn)

	1QCY22	1QCY21	YoY	QoQ
Net sales	96,195	68,488	40%	-21%
COGS	66,797	44,341	51%	-24%
Gross profit	**29,398**	**24,147**	**22%**	**-13%**
S&A expense	7,252	5,888	23%	-13%
Financial charges	2,932	1,986	48%	28%
Other op expenses	3,849	2,128	81%	-24%
Other operating Inc	4,199	4,402	-5%	-14%
PBT	**19,565**	**18,547**	**5%**	**-14%**
PAT	14,315	12,779	12%	-7%
PAT att to owners	**14,228**	**12,678**	**12%**	**-8%**
GM	31%	35%		
NM	15%	19%		

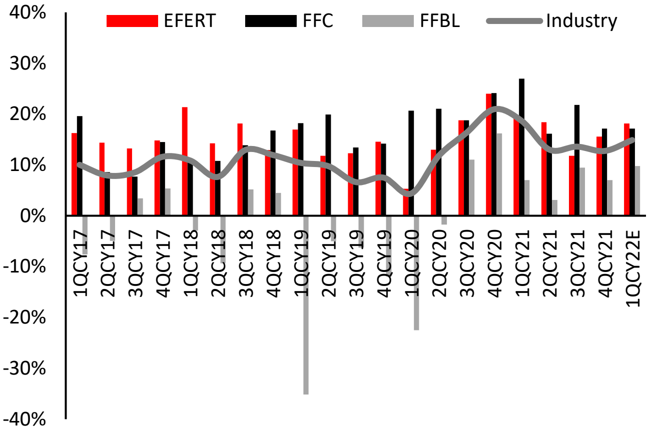
Source: Company Accounts, Foundation Securities, April 2022

Fig 2: EFERT to report highest GP Margins…..



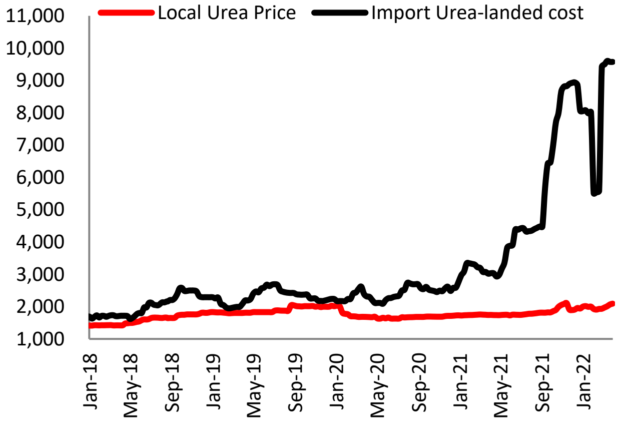
Source: Company acc, FSL Research, April 2022

Fig 3: …net margins as well due to ↑ retention prices



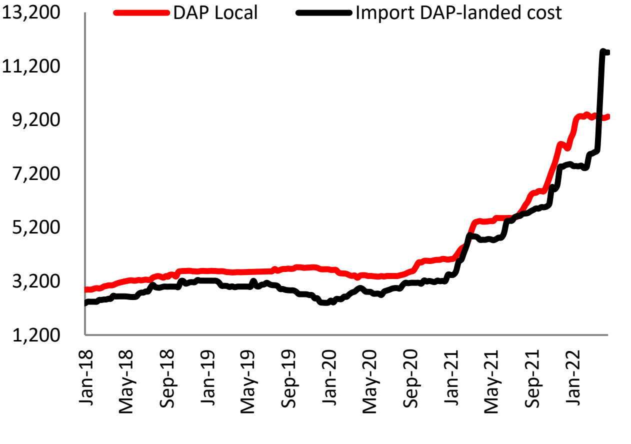
Source: Company acc, FSL Research, April 2022

Fig 4: Significant gap to enhance pricing power



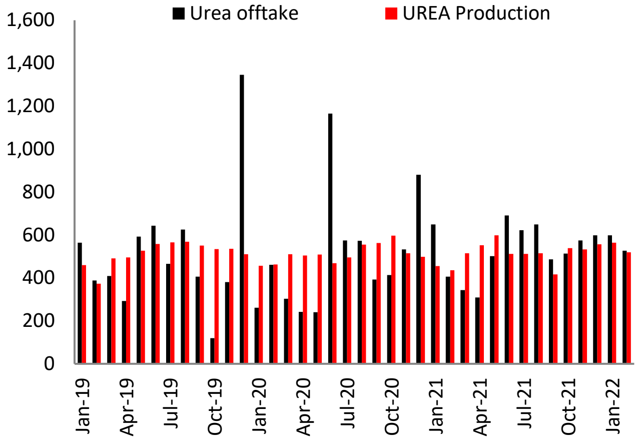
Source: PBS, Bloomberg, FSL Research, April 2022

Fig 5: Lower exports by China to support prices



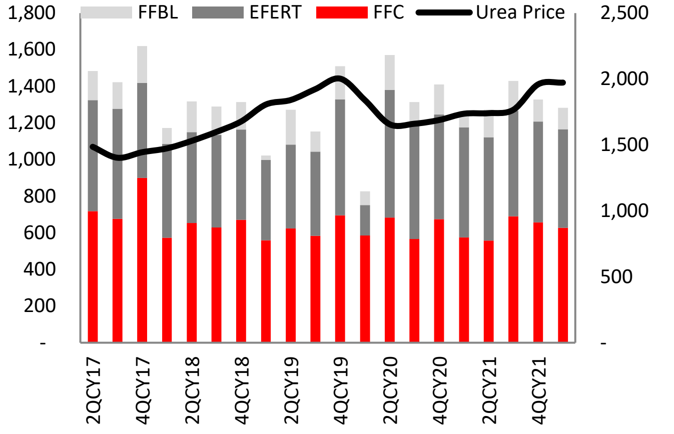
Source: PBS, Bloomberg, FSL Research, April 2022

Fig 6: Urea offtake expected to ↑ YoY in 1QCY22..



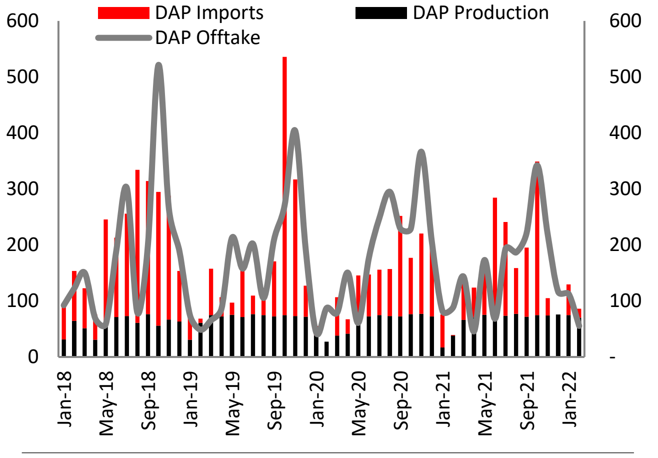
Source: NFDC, FSL Research, April 2022

Fig 7: ..given expected price hike in coming months



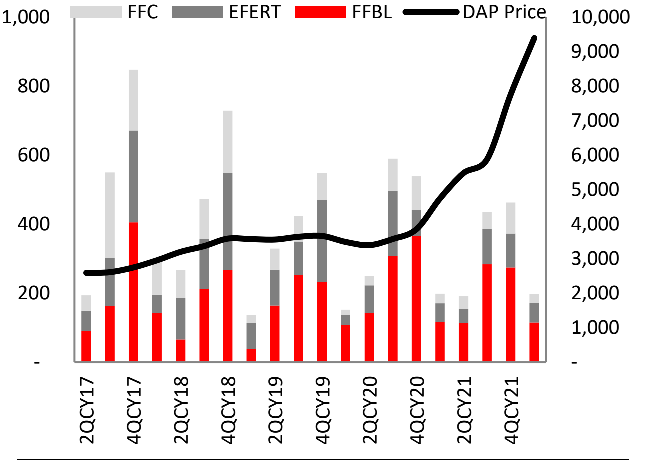
Source: NFDC, FSL Research, April 2022

Fig 8: DAP imports declined due to higher prices…



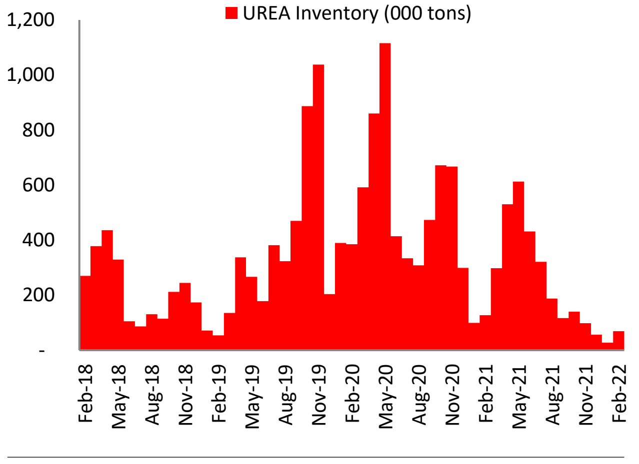
Source: NFDC, FSL Research, April 2022

Fig 9:… and offtake declined as well (K tons)



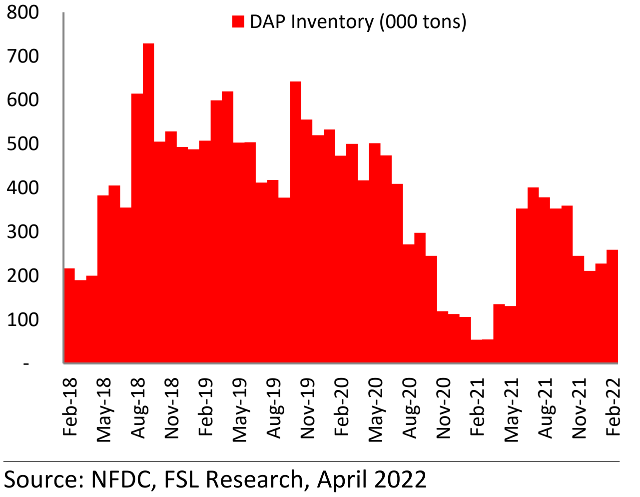
Source: NFDC, FSL Research, April 2022

Fig 10: ↓ Inventory level to support pricing power



Source: NFDC, FSL Research, April 2022

Fig 11: DAP supply to remain restricted in CY22



Source: NFDC, FSL Research, April 2022

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

Important disclosures:

Recommendations definitions

If

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