

## PAKISTAN



## FSL Fertilizer universe 2QCY22E Profitability Highlights

	2QCY22E	2QCY21	YoY	QoQ
FFBL	1.9	0.4	361%	-23%
FFC	2.2	2.8	-22%	-55%
EFERT	1.2	3.6	-66%	-71%

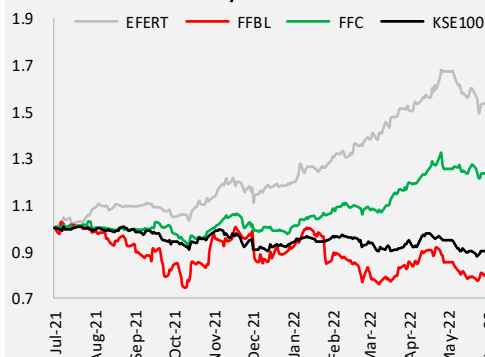
	1HCY22E	1HCY21	YoY
FFBL	4.4	1.3	206%
FFC	7.1	7.4	-4%
EFERT	5.3	7.9	-32%

## Dividend expectations (Rs/sh)

FFBL	-
EFERT	1.0
FFC	1.5

Source: Company accounts, FSL Research, July 2022

## FSL Fertilizer universe V/S KSE100 Index



Source: Bloomberg, Foundation Research, July 2022

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## Pakistan Fertilizer

## Core profitability to remain upbeat

## Event

▪ FSL fertilizer universe profitability is expected to decrease by 23% YoY in 2QCY22 due to imposition of 10% super tax in FY23 budget. However, universe core profitability is expected to increase by 44% YoY in 2QCY22 due to (1) higher Urea/DAP offtake, (2) 23% YoY increase in Urea prices, (3) better DAP margins given constrained supply in international markets and (4) 71% YoY increase in other income due to strong cash position amid higher interest rates. Among individual companies, FFBL would outperform peers with EPS of Rs1.9/sh (up 361% YoY).

## Impact

▪ **Core profitability to remain upbeat giving pricing power:** FSL fertilizer sales are expected to increase by 73% YoY in 2QCY22 due to ~5/45% YoY increase in Urea/DAP offtake amid ~23/79% YoY increase in Urea/DAP prices. Urea offtake increase in 2QCY22 is due to expected hike in gas prices as pre-condition to resumption of IMF program. Moreover, increase in DAP offtake is attributable to inventory build-up move by dealers due to expected decline in imported product given restrictions by china on DAP imports amid rupee depreciation.

▪ To highlight, Gov't has imposed 10% one-time super tax on fertilizer sector profitability earned in CY21, and recurring 4% super tax on profitability from CY22. Furthermore, excluding impact of super tax universe profitability would have increase by 74% YoY to Rs15.7bn in 2QCY22.

▪ **Higher share of profit from associate to dilute the super tax impact on FFBL:** We expect FFBL to post EPS of Rs1.9 in 2QCY22 (up 361% YoY). Company profitability would increase due to (1) ~67% YoY increase in DAP offtake amid better retention prices, (2) ~225% YoY increase in share of profit from PMP given higher phosphoric acid prices. Furthermore, FFL and FML are expected to contribute LPS of Rs0.34 in FFBL profitability that will be diluted by Rs0.52 EPS contribution from FPCL. To highlight, FFBL will book ~Rs2.3bn exchange loss on amount payable to PMP in 2QCY22 due to 7% rupee depreciation against MAD in 2QCY22.

▪ **Decline in FFC profitability to be restricted by higher Urea offtake:** FFC profitability is expected to decline by 22/55% YoY/QoQ to Rs2.2/sh in 2QCY22 due to super tax. However, company core profitability would increase by 41% YoY in 2QCY22 due to (1) ~17% YoY increase in Urea offtake amid higher production, (2) better Urea retention prices and (3) better DAP trading margins. Furthermore, support to FFC profitability would come from 74% YoY increase in other income due to strong cash position amid higher interest rates.

▪ **Lower Urea offtake and super tax to drag EFERT earnings in 2QCY22:** EFERT is expected to report EPS of Rs1.2/sh (down 66/71% YoY/QoQ) in 2QCY22. However, company core profitability would increase by 14% YoY in 2QCY22 due to (1) higher Urea retention prices (up 10% YoY), (2) 18% YoY increase in DAP trading margins and (3) ~33% YoY increase in DAP offtake.

## Outlook

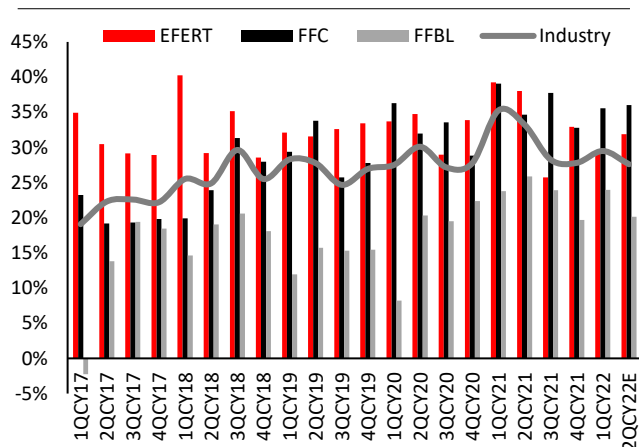
▪ We have an "Outperform" stance on the sector given government focus on food security amid better pricing of wheat and cash crops. Furthermore, constrained supply of Urea and restricted DAP imports would further strengthen the pricing power of base players.

Fig 1: Fertilizer sector financial highlights 2QCY22E (Rs mn)

	2QCY22	2QCY21	YoY	QoQ	1HCY22	1HCY21	YoY
Net sales	120,263	69,496	73%	-37%	212,304	137,985	54%
COGS	87,066	46,401	88%	-39%	151,964	90,742	67%
<b>Gross profit</b>	<b>33,197</b>	<b>23,096</b>	<b>44%</b>	<b>-33%</b>	<b>60,341</b>	<b>47,243</b>	<b>28%</b>
S&A expense	8,710	6,794	28%	-38%	16,002	12,682	26%
Financial charges	3,562	2,194	62%	-44%	6,510	4,180	56%
Other op expenses	5,019	4,745	6%	-47%	8,120	6,874	18%
Other operating Inc	5,955	3,482	71%	-48%	12,681	7,884	61%
<b>PBT</b>	<b>21,862</b>	<b>12,845</b>	<b>70%</b>	<b>-29%</b>	<b>42,389</b>	<b>31,391</b>	<b>35%</b>
PAT	6,967	9,045	-23%	-67%	21,920	21,824	0%
<b>PAT att to owners</b>	<b>6,877</b>	<b>8,923</b>			<b>21,822</b>	<b>21,601</b>	
GM	28%	33%			28%	34%	
NM	6%	13%			10%	16%	

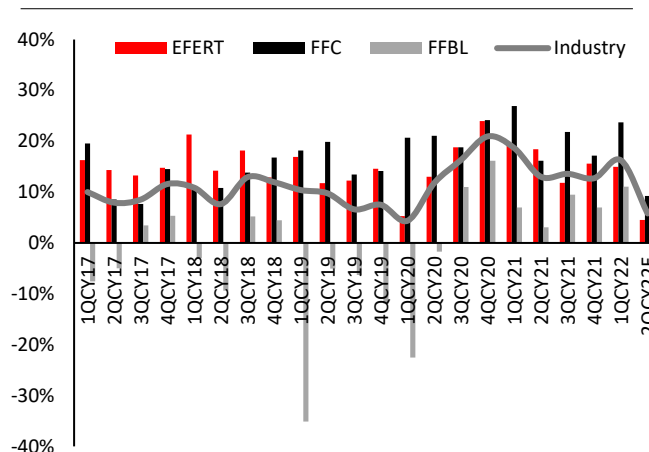
Source: Company Accounts, Foundation Securities, July 2022

Fig 2: FFC to report highest GP Margins in 2QCY22.....



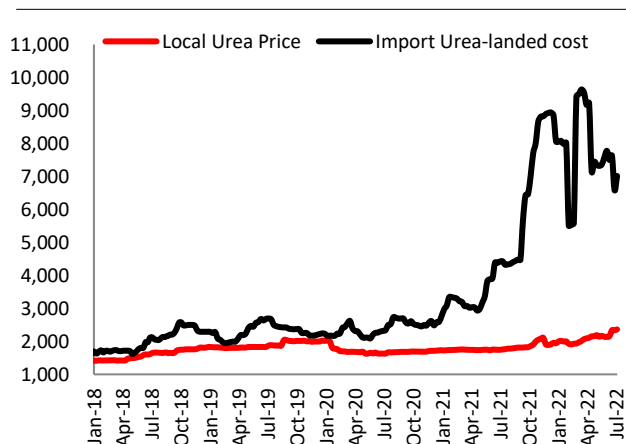
Source: Company acc, FSL Research, July 2022

Fig 3: ...net margins as well due to ↑ other income



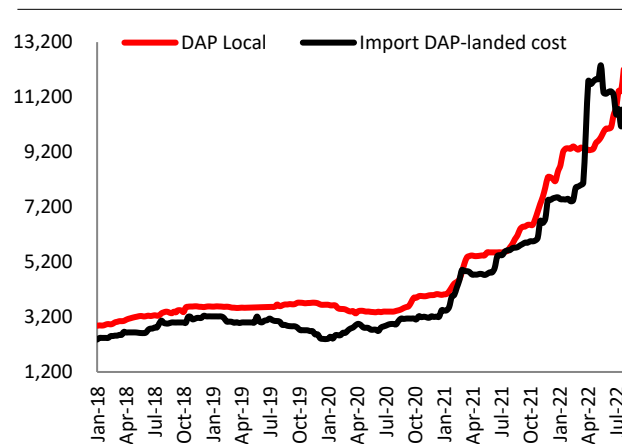
Source: Company acc, FSL Research, July 2022

Fig 4: Significant gap to enhance pricing power



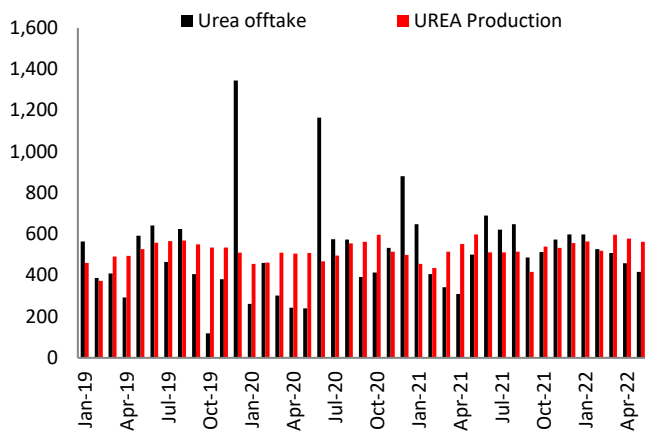
Source: PBS, Bloomberg, FSL Research, July 2022

Fig 5: Lower exports by China to support prices



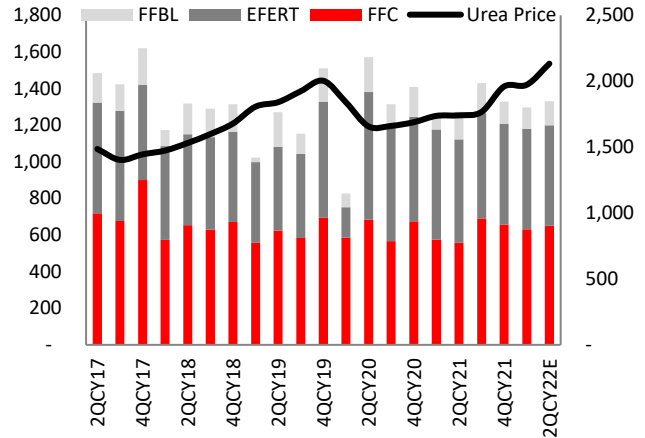
Source: PBS, Bloomberg, FSL Research, July 2022

**Fig 6: Urea offtake expected to ↑ YoY in 2QCY22..**



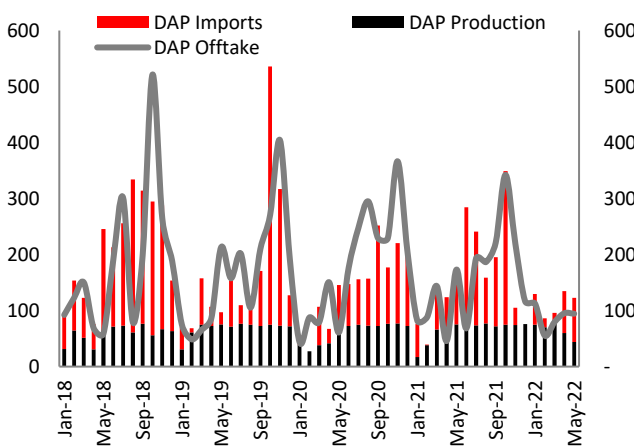
Source: NFDC, FSL Research, July 2022

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



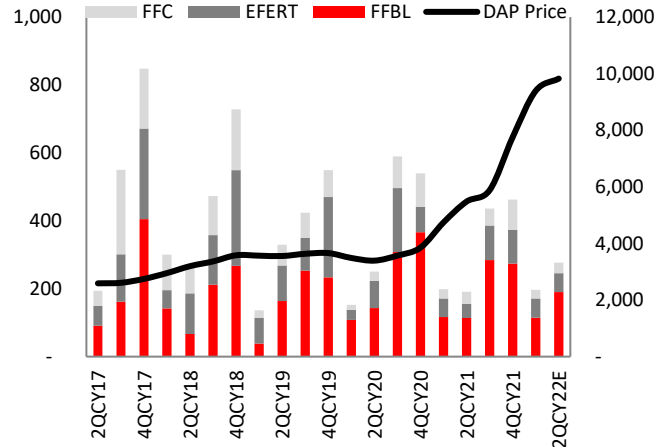
Source: NFDC, FSL Research, July 2022

**Fig 8: DAP imports declined due to higher prices...**



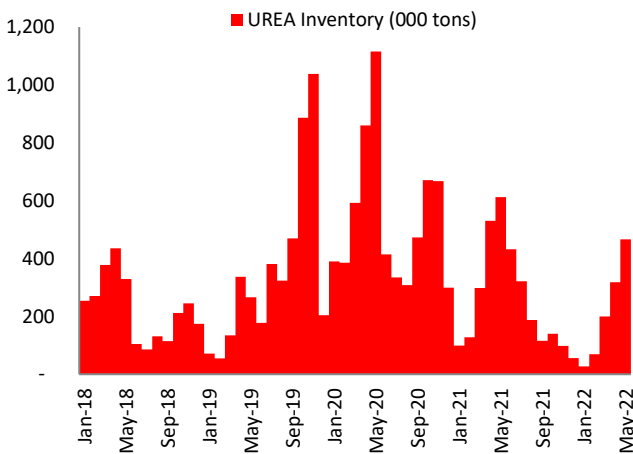
Source: NFDC, FSL Research, July 2022

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



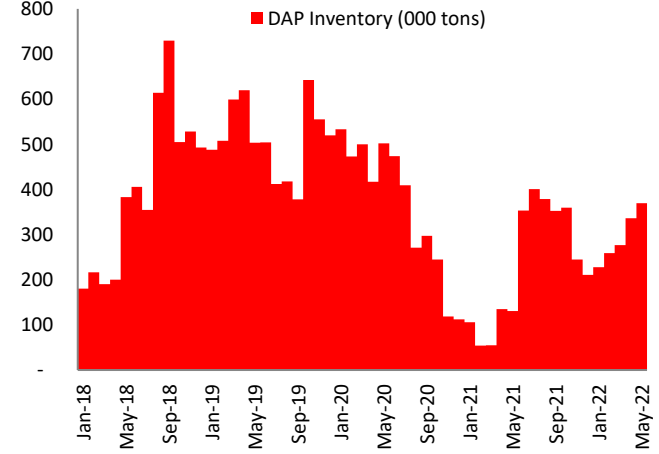
Source: NFDC, FSL Research, July 2022

**Fig 10: ↓ Inventory level to support pricing power**



Source: NFDC, FSL Research, July 2022

**Fig 11: DAP supply to remain restricted in 2HCY22**



Source: NFDC, FSL Research, July 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

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