

Fertilizer Dec'21 earnings preview

Fertilizer

Overweight

January 24, 2022

Key Points

- We present earnings expectation for our Fertilizer sector universe (FFC, EFERT, FFBL) for 4QCY21.
- The combined profit of the sector is likely to clock in at PKR15.9bn as compared to PKR16.7bn in the same period last year, registering a decline of 5%YoY.
- Sequential increase in earnings is mainly attributable to higher urea retention prices and better DAP margins.
- Gross margins of our coverage companies are estimated to remain at 24% compared as compared to 21% in the same period last year due to better retention prices.
- We maintain our Overweight stance on the sector with FFC our top pick.

The sector to witness a massive increase in earnings on YoY basis

Next fertilizer universe is likely to post profitability of PKR15.9bn as against PKR16.7bn in the corresponding period last year, a decline of 5%YoY due to lower off-takes. However, on sequential basis, we expect 4QCY21 profitability to increase by 21%QoQ due to higher retention prices and better DAP margins. On an individual basis FFBL is expected to drive sector profitability with earnings estimated at PKR4.4bn (EPS: PKR3.44), an increase of 44%YoY/95%QoQ. While on the other hand FFC and EFERT is expected to witness a drop of 3%/30%YoY to PKR6.8/4.6bn due to lower offtake in case of FFC and end of concessionary gas agreement in case of EFERT.

FFC: Earnings to clock in at PKR6.8bn (EPS: PKR5.35), down by 4%YoY for 4QCY21.

Fauji Fertilizer Company Limited (FFC) is scheduled to announce its financial results for 4QCY21, wherein we expect the company to report earnings of PKR 6.8bn (EPS: 5.35), down by 4%YoY. The decline in earnings is mainly attributable to ~4%YoY decline in urea off-takes and higher borrowing requirement amid higher interest rate regime. Moreover, we expect gross margins are likely to increase to 31% as against 29% in the same period last year due to better retention prices. In conjunction with the result, we expect company to declare final cash dividend of PKR 4.25/share, taking full year dividend to PKR 14.10/share.

EFERT: Earnings to decrease by 30% amid discontinuation of GSA

Engro Fertilizers Company Limited is scheduled to announce its financial result for 4QCY21, where we expect earnings for 4QCY21 to decrease by 30%YoY to PKR 4.6bn (EPS: PKR 3.50) majorly due to 4%YoY decline in urea offtakes and discontinuation of gas sales agreement. Resultantly, gross margins of the company decline to 25% as compared to 34% in the same period last year. This takes total profitability for CY21 to PKR 19.5bn (EPS: PKR 14.67), up by +4%YoY. Accretion to earning stems from increase in prices of urea and DAP taking net sales up by +26%YoY to PKR 133bn. We also expect EFERT to announce an interim cash dividend of PKR3.25/share for the quarter.

FFBL: Rising margins and lower finance cost to drive FFBL's profitability

We expect the company to report unconsolidated profit of PKR4.4bn, (EPS PKR3.44) for 4QCY21 compared to PKR3.0bn (EPS PKR2.40) during SPY. Top-line for 4QCY21 is expected to increase by ~38% due to better DAP and urea retention prices despite lower volumetric sales. Furthermore, finance cost is likely to fall by ~38% due to decrease in borrowings. This takes total profitability for CY21 to PKR10.5bn vs PKR2.1bn in the same period last year. Alongside, we expect FFBL to announce a final cash dividend of PKR2/share.

Outlook

With monetary tightening fully underway, and valuation expected to squeeze in coming times, investors interest would inevitably turn towards defensive dividend-Yielding stocks and in this regard, no sector gives a better exposure than that of fertilizers. Although we have a BUY rating on our entire coverage universe, we single out FFC as our top pick. Furthermore, government focus on food security amid better pricing of wheat and other cash crops and given a constrained supply dynamics of urea and DAP would keep the pricing power of these trio.

Pakistan Equities

Fertilizer

Key Data

Mkt. Cap. (USDmn)	2,936
Mkt. Cap. (PKRbn)	517
Index Weightage (KSE-100)	14.1%
Number of Listed Companies	6

Source: PSX, Next Research

Dec'21 Sector Estimates

EPS	Dec'21	YoY	QoQ	DPS
FFC	5.35	-4%	5%	31
EFERT	3.50	30%	6%	-
FFBL	3.44	44%	95%	-

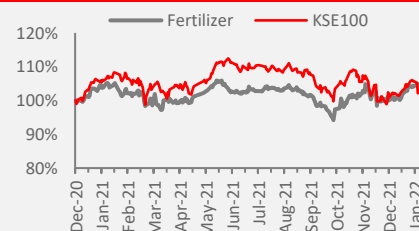
Source: Company Accounts, Next Research

Cumulative Sector Estimates

	EPS	DPS
FFC	17.84	14.10
EFERT	14.67	14.75
FFBL	8.21	2.00

Source: Company Accounts, Next Research

1 Year Relative Performance



Source: PSX, Next Research

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Rating	Sector's proposed weight in the portfolio
Over Weight	> Weight in KSE 100 index
Market Weight	= Weight in KSE 100 Index
Under Weight	< Weight in KSE 100 Index

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Rating	Expected Total Return
Buy	$R \geq 15\%$
Neutral	$0\% \geq R < 15\%$
Sell	$R < 0\%$

Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

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