



## **Pakistan Equities | Fertilizes Sector | Results preview**

### **4QCY23 Fertilizer sector expected profitability**

**Fertilizer sector profits likely to jump due to higher prices**



## Fertilizers profits are likely to increase:

- We preview 4QCY23 quarter results for EFERT, FFC & FFBL and FATIMA, where we expect all four companies to report a noticeable sequential improvement in profitability due to higher retention prices during the quarter. To note, the sector witnessed higher gas rates during the quarter to pass on the impact of which they had to increase fertilizer prices.
- In 2023, the fertilizer industry experienced a notable upswing in average urea prices, driven by adjustments in consumer gas prices, which settled at PKR 580/mmbtu for feed and PKR 1,580/mmbtu for fuel. Additionally, the Federal Budget of FY24 introduced a 5% Federal Excise Duty (FED) on fertilizers. Despite these changes, the overall urea offtakes remained steady compared to the previous year, reaching 6.6 million tons. On the contrary, Diammonium Phosphate (DAP) offtakes saw a significant 30% increase, totaling 1.57 million tons. This favorable trend can be attributed to the stabilization of international prices for DAP and phosphate rock, coupled with the later-half stabilization of the exchange rate in CY23.
- We anticipate Urea and DAP demand to stabilize around ~6.6 and ~2.0 MN Tons, respectively, in CY24. This projection is backed by the ongoing efforts of the government and SIFC to improve farm economics and enhance crop yield.
- Mari-based companies to take one month hit in 4QCY23. Gas price hike for fertilizer companies on Mari network is applicable from Oct-23, instead of Nov-23 like Sui companies, negatively impacting FFC and FATIMA, as they increased fertilizer prices effective Nov-23.



## Company wise previews:

- In the fourth quarter of calendar year 2023 (4QCY23), EFERT is anticipated to report an Earnings Per Share (EPS) of PKR 9.1. During this quarter, EFERT is projected to achieve a gross margin of 36%, showing a 2-percentage-point increase quarter-on-quarter (Q/Q). This enhancement is attributed to elevated fertilizer prices, a rise in phosphate fertilizer offtakes, a lower PKR/USD exchange rate, and decreased rock phosphate prices. Despite the imposition of super tax in CY23, EFERT is expected to demonstrate a substantial 66% year-on-year (Y/Y) growth in earnings, driven by higher Urea prices and a projected offtake of 2.3 million tons. The Dividends Per Share (DPS) for 4QCY23 is estimated to be PKR 6.75.
- FFC is expecting to post an EPS PKR 6.25/per sh. As revised Mari gas pricing takes effect from Oct-23 instead of Nov-23, there is an anticipated decline in the company's estimated Urea margin, decreasing from ~57% in 3QCY23 to ~42% in 4QCY23. This decline is expected to result in a 15% Q/Q contraction in earnings for 4QCY23. Additionally, higher repair and maintenance cost for the quarter is expected since FFC's Plant-III underwent a turnaround in Oct-23. DPS in 4QCY23 is estimated to arrive at PKR 3.75/sh.
- FFBL's earnings to arrive at PKR 4.25/sh in 4QCY23. FFBL's gross margins are anticipated to rise to 22%, despite higher phos-acid prices in 4QCY23. This improvement is attributed to higher Urea offtakes and increased DAP prices, rising from PKR 11,904/bag in Sep-23 to PKR 12,388/bag in Oct-23. The estimated reduction in finance cost for the quarter due to previous debt retirement is also poised to support earnings growth. Furthermore, the expectation of a surprise cash dividend this quarter is also maintained.
- FATIMA earnings to arrive at 3.75/sh in 4QCY23. FATIMA is expected to post an earnings growth of 18% Q/Q in 4QCY23 on the back of, 1) higher Urea and DAP offtakes by 28 and 25 KT, respectively, and 2) higher fertilizer prices. FATIMA is also expected to announce a dividend of PKR 1.75/sh taking the total DPS in CY23 to PKR 3.50, in line with last year's.



## Company wise EPS and DPS previews:

Pkr/Share	4QCY23E	3QCY23	2QCY23	1QCY23	4QCY22	QoQ %	YoY %	CY23	CY22	YoY %
<b>EPS</b>										
FFC	6.25	7.18	4.2	6.08	4.09	-13%	53%	23.71	15.76	50%
EFERT	9.1	7.17	0.79	3.3	4.8	27%	90%	20.36	11.99	70%
FFBL	4.25	4.1	0.37	-4.2	0.48	4%	785%	4.52	1.8	151%
FATIMA	3.75	3.58	0.59	2.07	2.02	5%	86%	9.99	6.73	48%
<b>DPS</b>										
FFC	3.75	3.98	3.15	4.26	3.15	-6%	19%	15.14	12.13	25%
EFERT	6.75	6	3	3.5	5	13%	35%	19.25	13.5	43%
FFBL	0	0	0	0	0	0%	0%	0	0	0%
FATIMA	1.75	0	1.75	0	3.5	0%	-50%	3.5	3.5	0%

Source: Company Financials, AUS research

**FFC:**

Bloomberg Code: FFC PA  
 Target Price: Rs154/per share  
 Market Price: Rs117.70/per share  
 Market Cap: Rs150bn, US\$536mn

**EFERT:**

Bloomberg Code: EFERT PA  
 Target Price: Rs142  
 Market Price: Rs127.26  
 Market Cap: Rs162bn, US\$579mn

**FFBL:**

Bloomberg Code: FFBL PA  
 Target Price: Rs42  
 Market Price: Rs30.56  
 Market Cap: Rs37bn, US\$133mn

**FATIMA**

Bloomberg Code: FATIMA PA  
 Target Price: Rs48  
 Market Price: Rs35.06  
 Market Cap: Rs73.62bn, US\$262mn



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Please contact: Cell 0305-2385445 or dial Landline: 0213-2470551

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Comparable Method (P/E, P/B, Justified P/B & P/E etc.)

Discounted Cash flow Method

Equity and Asset based valuation

## Rating

BUY	Total return more than 15% from last closing of market price
HOLD	Total return is in between 10% and 15% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price

