

Fertilizers: 3QCY24 Preview – Higher prices support earnings



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FFC to maintain outperformance

Fertilizer earnings to grow by 10% YoY: We estimate BMA Fertilizer universe's earnings to increase by 10% YoY to Pkr 26.3bn in 3QCY24, supported by an increase in urea and DAP prices. Moreover, on a QoQ basis, earnings are expected to improve by 12% owing to higher volumetric sales of urea and DAP. Bottom-line earnings for 9MCY24 are estimated at **Pkr 72.3bn, up 92% YoY.**

Urea off-take falls amidst higher prices and weak agronomics: Urea sales are expected to decline by 17% YoY to 1.5mn tons in 3QCY24. Moreover, DAP off-take is anticipated to reduce by 18% YoY to 395k tons during 3QCY24. This significant decline is attributed to higher urea prices along with weak agronomics. However, QoQ urea and DAP sales are expected to increase by 27% and 54%, respectively, driven by the low base effect and the Kharif sowing season. This is likely to take 9MCY24 Urea and DAP sales to 4.5mn tons (-8% YoY) and 0.9mn tons (-6% YoY), respectively.

Sharp increase in urea price: Average Urea price increased by 34% YoY to Pkr 4,784 per bag during 3QCY24 as companies passed on rising gas prices to the final consumers. Moreover, DAP prices also increased by 6% YoY to Pkr 11,282 per bag. To recall, government raised fertilizer gas tariffs to Pkr 1,597/mmbtu for both feed and fuel in Feb-2024's revision. Improved retention may push average urea gross margins by 11ppts to 36% in 3QCY24 vs 25% in 3QCY23.

Fauji Fertilizer Company (FFC): We expect FFC to post unconsolidated EPS of Pkr 11.6 (+61% YoY) in 3QCY24. The increase in earnings is mainly due to (1) 22ppts increase in gross margins to 52% in 3QCY24 led by higher urea/DAP prices and lower gas price compared to peer companies, and (2) lower finance cost owing to debt repayment. Along with the result, we expect company to **announce a cash dividend of Pkr 10.0/share**, taking 9MCY24 dividend to Pkr 25.5/share.

Fauji Fertilizer Bin Qasim (FFBL): We anticipate FFBL to report an unconsolidated EPS of Pkr 3.9 in 3QCY24, a decline from the EPS of Pkr 4.1 in 3QCY23. This decline in earnings is primarily attributed to (1) 37% YoY decline in DAP sales, and (2) lower other income. Along with the result, we **do not** expect company to **announce cash dividend.**

Engro Fertilizers (EFERT): We expect EFERT's consolidated EPS at Pkr 4.9 in 3QCY24 compared to EPS of Pkr 7.2 in 3QCY23, down 31% YoY. The YoY decline in earnings is due to (1) lower volumetric sales of urea and DAP, and (2) lower gross margin. On a sequential basis, we expect earnings to increase by 295% QoQ, owing to 52% QoQ and 64% QoQ increase in urea and DAP offtake due to completion of maintenance at EnVen Plant. Along with the result, we expect company to announce cash dividend of **Pkr 4.5/share**, taking 9MCY24 dividend to Pkr 15.5/share.

Pakistan Fertilizer Earnings Estimates

Pkr	3QCY24E	3QCY23A	YoY	2QCY24A	QoQ	9MCY24E	9MCY23A	YoY
FFC	11.6	7.2	61%	12.2	-5%	32.1	17.5	84%
FFBL	3.9	4.1	-5%	4.8	-19%	12.1	0.3	NM
EFERT*	4.9	7.2	-31%	1.2	295%	12.0	11.3	6%

Source: Company Accounts, BMA Research, *Consolidated

Pakistan Urea Expected Off-take in 3QCY24

K Tons	3QCY24E	3QCY23A	YoY	2QCY24A	QoQ	9MCY24E	9MCY23A	YoY
FFC	596	664	-10%	620	-4%	1,970	1,911	3%
FFBL	134	73	83%	151	-11%	349	254	38%
EFERT	466	692	-33%	307	52%	1,396	1,727	-19%
Others	340	415	-18%	132	157%	858	1,053	-19%
Total	1,536	1,844	-17%	1,210	27%	4,573	4,945	-8%

Source: NDFC, BMA Research

Pakistan DAP Expected Off-take in 3QCY24

K Tons	3QCY24E	3QCY23A	YoY	2QCY24A	QoQ	9MCY24E	9MCY23A	YoY
FFC	12	28	-59%	41	-72%	70	78	-10%
FFBL	217	345	-37%	158	38%	544	619	-12%
EFERT	70	81	-14%	42	64%	195	163	20%
Others	96	27	252%	15	548%	130	141	-8%
Total	395	481	-18%	256	54%	940	1,001	-6%

Source: NDFC, BMA Research

Urea & DAP Prices in 3QCY24

Pkr/Bag	3QCY24E	3QCY23A	YoY	2QCY24A	QoQ
Urea	4,784	3,566	34%	4,822	-1%
DAP	11,282	10,671	6%	11,556	-2%

Source: NDFC, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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