

# Fertilizers profits likely to jump 2.4x YoY in 2Q2024



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# Jump in profitability lead by higher margins and lower ETR

**Fertilizer earnings to grow by 2.4x YoY:** We estimate BMA Fertilizer universe's earnings to increase by 2.4x YoY to PkR 23.3bn in 2Q2024, supported by an increase in retention and lower effective tax rates. However, on a QoQ basis, earnings are expected to decline by 9% owing to lower volumetric sales. Bottom-line earnings for 1HCY24 are estimated at **PkR 48.9bn, up 2.6x YoY**.

**Urea off-take falls amidst plant overhauls:** Urea sales are expected to decline by 18% YoY and 34% QoQ to 1.2mn tons in 2Q2024. Moreover, DAP off-take is anticipated to reduce by 7% YoY and 11% QoQ to 256k tons during 2Q2024. This is likely to take 1H2024 Urea and DAP sales to 3.0mn tons (-2% YoY) and 0.5mn tons (+5% YoY), respectively.

**Sharp increases in retention price:** Average urea retention increased by 59% YoY and 2% QoQ to PkR 4,822 per bag during 2Q2024 as companies passed on rising gas prices to the final consumers. Moreover, DAP prices also increased by 15% YoY to PkR 11,556 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 3ppts to 33% in 2Q2024 vs 30% in 2Q2023.

**Fauji Fertilizer Company (FFC):** We expect FFC to post unconsolidated EPS of PkR 11.3 (+168% YoY) in 2Q2024. The increase in earnings is mainly due to (1) 14ppts increase in gross margins to 44% in 4Q2024 led by higher Urea/DAP prices, (2) lower effective tax rate and (2) increase in Urea and DAP sales by 0.5% YoY and 55% YoY. Along with the result, we expect company to **announce a cash dividend of PkR 7.0/share**, taking 1H2024 dividend to PkR 12.5/share.

**Fauji Fertilizer Bin Qasim (FFBL):** We anticipate FFBL to report an unconsolidated EPS of PkR 3.4 in 2Q2024, a significant increase from the EPS of PkR 0.4 in 2Q2023. This improvement is primarily attributed to (1) 6% rise in gross margins to 19% in 2Q2024, (2) lower effective tax rate, and (3) lower finance cost due to reduction in total debt. Along with the result, we expect company to **announce cash dividend of PkR 1.5/share**.

**Engro Fertilizers (EFERT):** We expect EFERT's consolidated EPS at PkR 3.5 in 2Q2024 compared to EPS of PkR 0.8 in 2Q2024, up 339% YoY. The YoY jump in earnings is due to a higher tax expense booked in 2Q2023 on account of super tax. On a sequential basis, we expect earnings to decline by 57% QoQ, owing to 36% YoY decline in Urea offtake due to 58 days maintenance at EnVen plant. Along with the result, we expect company to announce cash dividend of **PkR 3.0/share**, taking 1H2024 dividend to PkR 11/share.

## Pakistan Fertilizer Earnings Estimates

PkR	2QCY24E	2QCY23A	YoY	1QCY24A	QoQ	1HCY24E	1HCY23A	YoY
FFC	11.3	4.2	168%	8.3	36%	19.5	10.3	90%
FFBL	3.4	0.4	811%	3.3	1%	6.7	(3.8)	NM
EFERT*	3.5	0.8	339%	8.1	-57%	11.5	4.1	182%

Source: Company Accounts, BMA Research, \*Consolidated

## Pakistan Urea Expected Off-take in 2QCY24

K Tons	2QCY24E	2QCY23A	YoY	1QCY24A	QoQ	1HCY24E	1HCY23A	YoY
FFC	620	617	0%	755	-18%	1,374	1,248	10%
FFBL	151	92	63%	64	135%	215	180	19%
EFERT	307	484	-36%	622	-51%	929	1,034	-10%
Others	132	285	-54%	386	-66%	518	639	-19%
<b>Total</b>	<b>1,210</b>	<b>1,478</b>	<b>-18%</b>	<b>1,827</b>	<b>-34%</b>	<b>3,037</b>	<b>3,101</b>	<b>-2%</b>

Source: NDFC, BMA Research

## Pakistan DAP Expected Off-take in 2Q2024

K Tons	2QCY24E	2QCY23A	YoY	1QCY24A	QoQ	1HCY24E	1HCY23A	YoY
FFC	41	26	55%	18	129%	59	50	18%
FFBL	158	147	7%	169	-7%	327	274	19%
EFERT	42	36	16%	83	-49%	126	82	54%
Others	15	65	-77%	18	-19%	33	114	-71%
<b>Total</b>	<b>256</b>	<b>275</b>	<b>-7%</b>	<b>289</b>	<b>-11%</b>	<b>545</b>	<b>520</b>	<b>5%</b>

Source: NDFC, BMA Research

## Urea & DAP Prices in 2QCY24

PkR/Bag	2QCY24E	2QCY23A	YoY	1QCY24A	QoQ
Urea	4,822	3,039	59%	4,723	2%
DAP	11,556	10,047	15%	12,500	-8%

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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