ARIF HABIB LIMITED
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REP- 300

1QCY24: Fertilizer Offtake & Result Preview

Mar'24: Urea and DAP offtake increased by 31% and 2x YoY

The tentative fertilizer data for the month of Mar'24 reported a growth in urea sales by 31% YoY, settling at 641k tons. On a company-wise basis, urea offtake of FATIMA ascended by 69%, respectively, arriving at 78k tons. In addition to this, the NFML sales climbed up by 7x YoY, settling at 161k tons. Meanwhile, urea dispatches of FFC and FFBL combined and EFERT plummeted by 6% and 20% YoY, clocking in at 253k tons and 119k tons, respectively. On a MoM basis, urea sales augmented by 18% on the anticipation of further hike in urea prices. Urea offtake of FFC and FFBL combined and FATIMA increased by 22% and 31% MoM, respectively. Whereas, dispatches of EFERT reduced by 38% MoM. On a cumulative basis, urea sales showcased a growth of 11% YoY at 1,797k tons in 1QCY24. Offtake of FFC and FFBL combined and FATIMA increased by 1% and 74% YoY, respectively settling at 726k tons and 236k tons, respectively. Meanwhile, urea sales of EFERT decreased by 6% YoY, settling at 519k tons.

DAP sales arrived at 124k tons in Mar'24, depicting a massive growth of 2x YoY, while declining by 9% MoM. With this, DAP offtake during 1QCY24 settled at 287k tons, up by 17% YoY. On a company-specific basis, DAP sales of FFC and FFBL combined surged by 3x YoY and decreased by 3% MoM to 79k tons in Mar'24. Hence, FFC and FFBL's DAP offtake during 1QCY24 clocked in at 191k tons, increasing by 27% YoY. Whereas, EFERT's DAP dispatches in Mar'24 swelled up by 74% YoY while reducing by 13% MoM to settle at 21k tons. Therefore, EFERT's DAP offtake in 1QCY24 rose by 85% YoY, arriving at 62k tons. However, FATIMA Group's DAP sales witnessed a significant decline of 80% YoY | 22% MoM to reach 2k tons in Mar'24. As a result, FATIMA's DAP offtake arrived at 5k tons during 1QCY24, plunging by 82% YoY.

Inventory position

The urea inventory towards the end of Mar'24 stood at 139k tons compared to 270k tons in Feb'24. Whereas, DAP inventory settled at 97k tons in Mar'24 against 89k tons in Feb'24.

EFERT: Bottom-line to climb up by 65% YoY in 1QCY24

Engro Fertilizer Limited (EFERT) is scheduled to announce the financial result for 1QCY24 on 18th Apr'24, where we expect the company to post a profit after tax of PKR 7,276mn (EPS: PKR 5.45) compared to PKR 4,404mn (EPS: PKR 3.30) in 1QCY23, showing a hefty jump of 65% YoY. Net sales are projected to grow by 52% YoY to PKR 66,898mn during 1QCY24 amid i) surge in urea and DAP prices by 66% and 22% YoY, respectively, and ii) massive growth in DAP sales. Meanwhile, urea offtake plummeted by 6% YoY. Gross margins are expected to settle at 29.51% during 1QCY24 vis-à-vis 24.49% in SPLY owed to higher urea prices. It is pertinent to note that during the quarter, OGRA revised gas prices for consumers on SNGP and SSGC, impact of which was passed on via hike in urea prices. Furthermore, financial charges are forecasted to decline by 19% YoY to PKR 353mn given fall in short term borrowings. Other income is projected to jump up by 2x YoY to PKR 1,537mn, owing to higher income from cash and cash balances. On a sequential basis, the profitability is expected to plummet by 35% QoQ on the back of i) a reduction in urea and DAP sales by 14% and 29% QoQ, respectively. In addition to the result, we expect the company to announce a dividend of PKR 5.00/share in 1QCY24 (PKR 3.50/share in 1QCY23).

Fertilizer Offtake (k'tons)

	1QCY24	1QCY23	YoY
Urea	1,797	1,623	11%
DAP	287	245	17%
CAN	227	163	39%
NP	191	196	-3%

Source (s): AHL Research

Urea (k'tons)

	1QCY24	1QCY23	YoY
FFC and FFBL	726	719	1%
EFERT	519	551	-6%
FATIMA	236	136	74%
NFML	161	213	-24%

Source (s): AHL Research

DAP (k'tons)

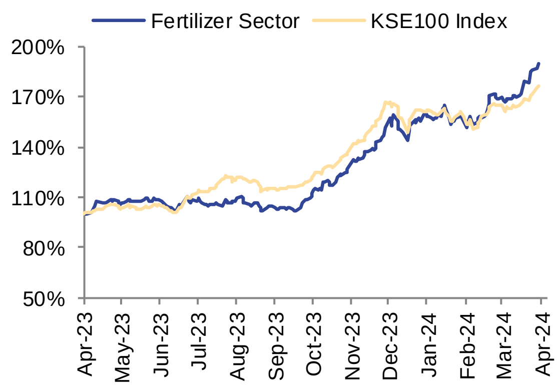
	1QCY24	1QCY23	YoY
FFC and FFBL	151	140	8%
EFERT	45	57	-21%
Private Import	22	42	-46%

Source (s): AHL Research

Inventory Position (k'tons)	Mar-24	Mar-23
Urea	139	69
DAP	97	275
CAN	33	2
NP	201	388

Source (s): AHL Research

Relative Performance



Source (s): PSX, AHL Research

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FFC: Profitability to climb up by 42% YoY in 1QCY24

We expect Fauji Fertilizer Company Limited to announce earnings of PKR 10,960mn (EPS: PKR 8.62) in 1QCY24 compared to PKR 7,730mn (EPS: PKR 6.08) in 1QCY23, up by 42% YoY. The growth in profitability is attributable to i) 3% YoY increase in urea offtake, and ii) a jump in urea and DAP prices in 1QCY24. Gross margins are expected at 38.6% in 1QCY24 (down by 147bps) owed to higher gas prices. We do highlight that the OGRA has not yet notified the hike in feed and fuel gas prices to FFC (which is on MARI's network) while OGRA has notified to fertilizer manufacturers which are on SNGP and SSGC network of the revision in said prices. Furthermore, the other income is anticipated to climb up by 2x YoY in 1QCY24, arriving at PKR 7,430mn given the increase in income from short-term investments along with dividend income from subsidiaries and associate company (AKBL). Whereas, financial charges are projected to ascend by 40% YoY on the back of higher interest rates. On a QoQ basis, the profitability is expected to climb up by 47%, owed to i) a jump in urea prices by 16% QoQ, while DAP prices went down by 4% QoQ, and ii) an increase in urea and DAP sales by 10% and 8% QoQ, respectively. Alongside this, we expect the company to announce an interim cash dividend of PKR 6.00/share in 1QCY24 (1QCY23: PKR 4.26/share).

FFBL to post earnings of PKR 3.29/share in 1QCY24

We anticipate Fauji Fertilizer Bin Qasim Limited (FFBL) to report a net profit of PKR 4,243mn (EPS: PKR 3.29) in 1QCY24 against a loss of PKR 5,429mn (LPS: PKR 4.20) in 1QCY23 which is primarily due to the absence of hefty exchange of PKR 4,620mn booked in 1QCY23. The topline of the company registered a growth of 50% YoY on account of i) 26% YoY growth in DAP sales, and ii) higher urea and DAP prices. Meanwhile, urea sales declined by 16% YoY during the period. Gross margins are expected to be 23.8% during 1QCY24 vis-à-vis 7.1% in 1QCY23 owed to a decline in phosphoric acid prices. Furthermore, financial charges are expected to reduce by 29% YoY amid lower short term borrowings. Other income is estimated to ascend by 5x YoY on account of higher income from cash and cash equivalents tagged with a dividend income from subsidiaries and associates (AKBL). On a sequential basis, the company's earnings are expected to increase by 5% QoQ on the back of i) higher urea prices, and ii) surge in other income amid higher dividend income.

Exhibit: Financial Highlights

(PKR/share)	1QCY24e	1QCY23a	YoY	4QCY23a	QoQ
EFERT*	5.45	3.30	65%	8.35	-35%
FFC	8.62	6.08	42%	5.86	47%
FFBL	3.29	(4.20)	nm	3.14	5%

Source (s): Company Financials, AHL Research, *Consolidated

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk