

Pakistan Fertilizer sector's profitability

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Price surge ignite sector's profitability

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Best for Diversity & Inclusion: '24
Best Investment Bank: '23

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Best Brokerage House: '23 – '21
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Best Economic Research House: : '23 – '21
Best Research Analyst: '22 – '20

FinanceAsia

Best Investment Bank: '22

INTERNATIONAL FINANCE

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PSX
PAKISTAN STOCK EXCHANGE LIMITED

Top 25 Companies ('17-'19)

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TRIPLE A

Best Gender Equality Bond: '24
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CENTRAL DEPOSITORY COMPANY

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Fertilizer Sector Profitability

CY24: Earnings climbed up by 44% to PKR 120bn

- **Fertilizer sector** earnings surged 44% YoY to PKR 119.9bn in CY24 compared to PKR 83.3bn in SPLY.
- **Revenue** depicted growth of 21% YoY to PKR 984.0bn, driven by a 39% rise in UREA and 9% increase in DAP prices.
- **Urea** offtake witnessed a meagre dip of 1% YoY, arriving at 6,577k tons.
- **DAP** offtake climbed up by 3% YoY, clocking in at 1,627k tons.
- **Gross margins** increased to 32% in CY24 from 30% in SPLY, owing to higher urea prices, and lower phosphoric acid price.
- **Distribution expenses** soared 41% YoY, largely due to higher axle load cost.
- **Finance costs declined 16% YoY**, benefiting from lower interest rates.
- **Other income** augmented by 58% YoY owing to i) higher income from cash and cash balances, and ii) dividend income from FFC's subsidiaries, associates, and joint venture.
- **Effective tax rate** remained unchanged at 50% in CY24.
- Furthermore, **FFC and FFBL completed amalgamation process** towards end of CY24 to form a single entity during the CY24. This horizontal merger will eliminate double taxation and generate operational, financial, and expansionary synergies.

Exhibit: Financial Highlights

(PKR mn)	CY24a	CY23a	YoY	4QCY24	4QCY23	YoY	QoQ
Income Statement							
Net Revenue	983,988	811,664	21%	320,763	248,783	29%	-27%
Cost of Sales	672,606	567,822	18%	225,521	161,734	39%	-23%
Gross Profit	311,382	243,842	28%	95,242	87,049	9%	-36%
Distribution Exp.	67,004	47,478	41%	24,271	16,729	45%	-19%
Others Income	59,342	37,473	58%	13,079	14,203	-8%	-67%
EBIT	256,418	187,547	37%	70,953	66,123	7%	-50%
Finance Cost	17,857	21,264	-16%	5,525	4,088	35%	-41%
PBT	238,561	166,282	43%	65,428	62,036	5%	-50%
Taxation	118,626	83,006	43%	27,352	29,365	-7%	-48%
PAT	119,935	83,276	44%	38,076	32,671	17%	-52%
Ratio Analysis							
Gross Margins	32%	30%		30%	35%		
Net Margins	12%	10%		12%	13%		
ETR	50%	50%		42%	47%		

Source (s): Company Financials, AHL Research

Fertilizer Sector Profitability

CY24: Earnings climbed up by 44% to PKR 120bn



- Fauji Fertilizer Company Limited (FFC) in CY24, reported the first result post merger with FFBL. The merged entity posted a net profit PKR 45.49/share, depicting a surge of 118% YoY.
- FFC's urea and DAP sales increased by 5% and 8% YoY, respectively.
- Other income swelled up by 106% YoY in CY24, given higher dividend income from Foundation Wind Energy Ltd I & II, Askari Bank Limited, Pak Maroc Phosphore S.A, and FFC Energy Ltd.



- Engro Fertilizers Limited (EFERT) unveiled the financial result for CY24 posting a consolidated profitability of PKR 21.16, up by 8% YoY.
- Net sales in CY24 clocked in at PKR 256,675mn, up 15% YoY which is on account of 39% and 9% YoY hike in urea and DAP price, respectively tagged with 10% YoY jump in DAP offtake. Meanwhile, urea sales declined by 13% YoY on the back of 54 days closure of EnVen plant for maintenance.
- The gross margins stood at 28.2% in CY24 compared to 32.3% amid higher gas prices.



- Fatima Fertilizer Company Ltd posted the highest ever earnings of PKR 17.33/share in CY24, depicting a surge of 58% YoY. In addition to this, the company also announced the highest ever dividend of PKR 7.00/share during the year.
- Topline climbed up by 9% YoY, on account of jump in urea, CAN, NP and DAP prices by 39%, 39%, 25%, and 9% YoY, respectively.
- Other income surged by 73% YoY owing to surge in investments.

Fertilizer Sector Profitability

Sector Outlook

Outlook:

- The fertilizer sector in CY25 is expected to face challenges due to weak farm economics, stemming from last year's subdued wheat production and sales. This could constrain demand, particularly for key fertilizers such as urea and DAP.
- By Feb'25, domestic urea prices achieved stability at PKR 4.5k/bag as all manufacturers aligned their pricing. Meanwhile, international urea prices dropped to USD 278/ton, reflecting a 26% YoY decline from USD 378/ton due to a global slowdown in demand.
- As of Mar'25, DAP prices stand at PKR 12,045/bag, reflecting a 2.5% YoY decline. Prices peaked during the month at PKR 12,127/bag, driven by elevated phosphoric acid costs and strong global DAP prices.
- On the gas front, the fertilizer companies are in talks with Govt. for uniform gas pricing.
- Looking ahead to CY25, local urea prices are likely to rise following an anticipated upward revision in gas prices.
- DAP prices are expected to increase amid hike in international DAP prices due to revival in global demand, supply chain disruption, and phosphoric acid prices.

Exhibit: Fertilizer Industry's Sales

000 tons	CY24	CY23	YoY	4QCY24	4QCY23	YoY
Urea	6,577	6,642	-1%	2,003	1,698	18%
DAP	1,627	1,576	3%	697	576	21%
CAN	679	638	6%	203	200	1%
NP	872	1085	-20%	301	231	30%

Company-wise offtake

Urea

FFC and FFBL	3,063	2,842	8%	839	677	24%
EFERT	2,027	2,327	-13%	705	600	17%
FATIMA Group	505	538	-6%	117	161	-27%
AGL	152	194	-22%	29	61	-53%
Others	385	258	nm	103	33	nm

DAP

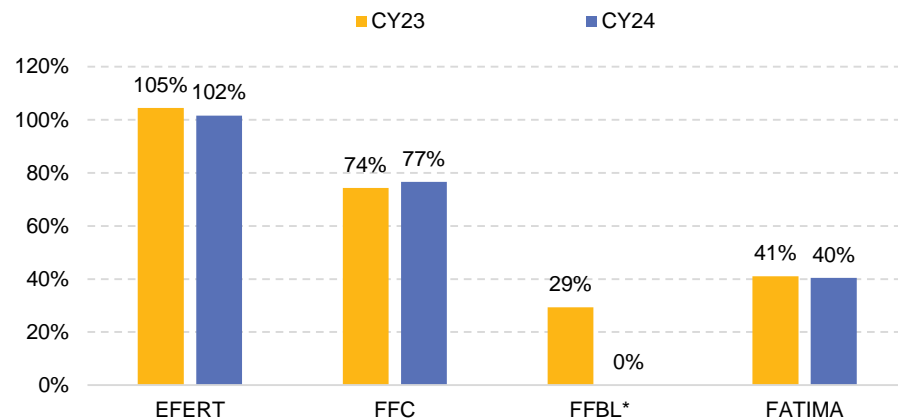
FFC and FFBL	995	951	5%	380	254	50%
EFERT	306	279	10%	111	116	-5%
FATIMA Group	51	96	-48%	14	47	-70%
Private Import	275	250	10%	192	158	21%

Source (s): AHL Research

Fertilizer Sector Profitability

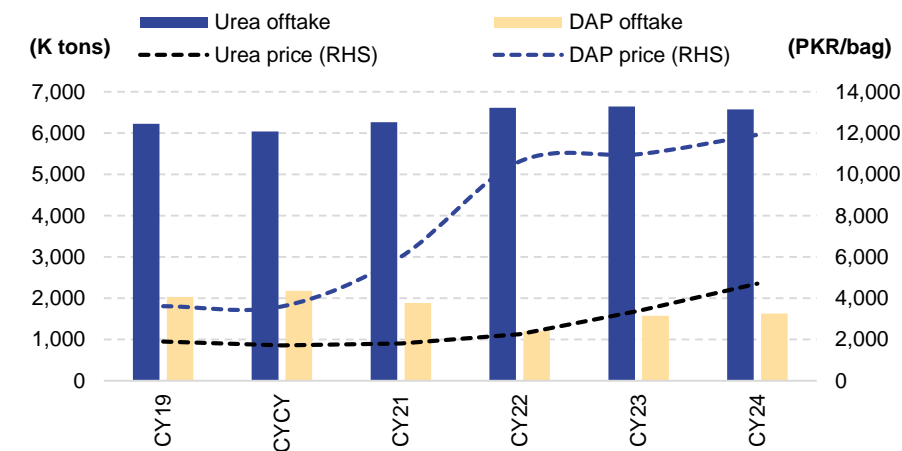
Sector at a glance

Exhibit: Dividend payout ratios



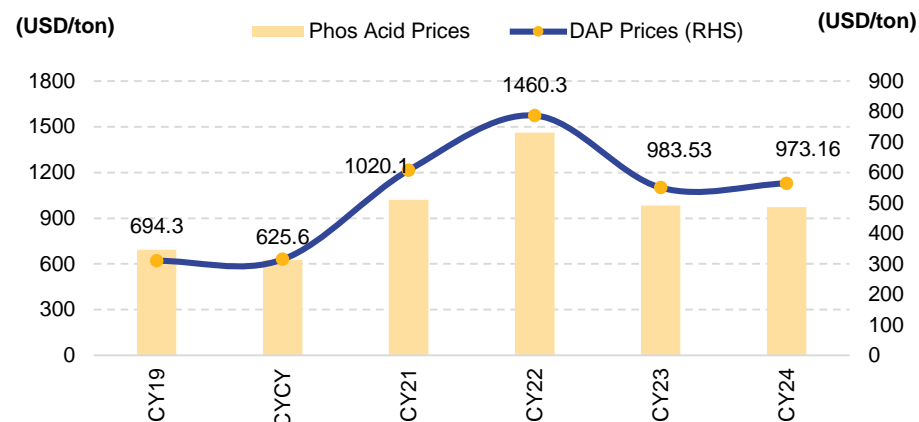
Source (s): AHL Research, *FFBL merged with FFC in CY24

Exhibit: UREA and DAP offtakes and prices



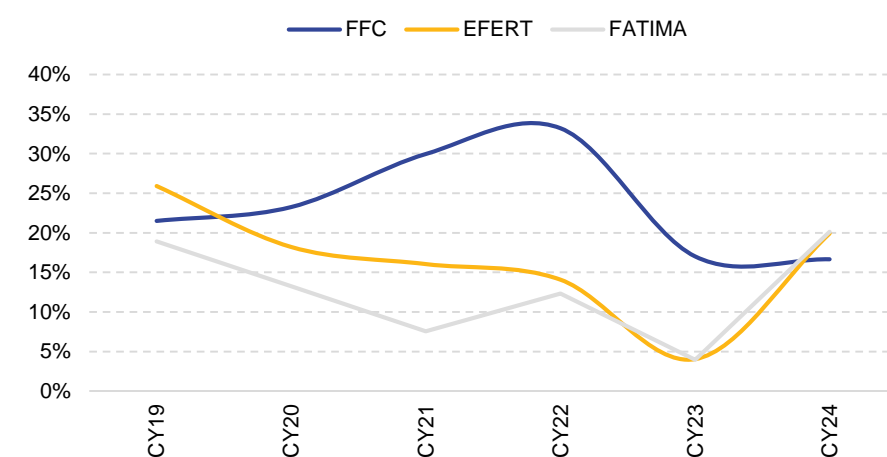
Source (s): NFDC, AHL Research

Exhibit: Phos Acid prices vs. DAP prices



Source (s): Bloomberg, AHL Research

Exhibit: Debt to Asset ratio



Source (s): Company Financials, AHL Research

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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);

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- Interest Rate Risk
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