

## PAKISTAN FERTILIZER

### FFBL & EFERT - 1QCY21 Result Previews

**FFBL – NPAT to post sequential decline but a turnaround on YoY basis:** Fauji Fertilizer Bin Qasim Ltd (FFBL) is expected to post 1QCY21 unconsolidated NPAT of Pkr1.41bn (EPS: Pkr1.09), as opposed to NLAT of Pkr3.05bn (LPS: Pkr2.36) in the same period last year. The turnaround in earnings is expected on the back of (i) 31% YoY increase in revenue, courtesy uptrend in local DAP prices, (ii) decline in feed/ fuel gas prices, courtesy GIDC elimination leading to gross margins expected in double digit vs. -5.8% in 1QCY20, (iii) 4xYoY higher other income, courtesy dividend income from AKBL of Pkr3.0/sh announced in previous quarter and, increase in cash reserves, and (iv) 48% YoY decline in finance cost amid lower interest rates. On sequential basis, the 55% decline in NPAT is expected on the back of seasonal dip in DAP offtake, with revenues expected to post a decline of 63%, despite increase in DAP and urea prices. Downside risk to earnings expectations is further impairment on its food ventures (Pkr4.08bn booked in CY20). Our TP of Pkr31.4/sh implies a Neutral stance at last day closing price.

#### FFBL: Earnings estimate

(PkrMn)	1QCY21	1QCY20	YoY	4QCY20	QoQ
Sales	12,475	9,558	30.5%	33,272	-62.5%
COGS	9,854	10,116	-2.6%	26,013	-62.1%
Gross Profit	2,621	-558	-569.5%	7,259	-63.9%
GMs	21%	-6%	26.9%	22%	-0.8%
Other Income	1,291	316	308.3%	952	35.7%
Finance Cost	791	1,519	-47.9%	906	-12.7%
PBT	1,665	-2,954	-156.4%	4,770	-65.1%
Tax	259	94	176.4%	1,676	-84.6%
PAT	1,406	-3,048	n.a.	3,094	-54.5%
EPS	1.09	-2.36	n.a.	2.40	-54.5%

Source: Company Report & AKD Research

**EFERT – Low base leads to 7.7xYoY higher NPAT:** Engro Fertilizer Ltd (EFERT) is scheduled to announce 1QCY21 financial result on 19th Apr'21, where we expect EFERT to post NPAT of Pkr4.40bn (EPS: Pkr3.29), up 7.7xYoY but down 34%QoQ. The sequential decline in earnings is expected majorly on the back of higher effective tax rate of 28% in 1Q as opposed to 8% in 4QCY20. On PBT basis, the earnings are expected to decline 16%QoQ on the back of absence of re-measurement gain on GIDC recorded in 4QCY20 (net impact on PBT basis: Pkr0.66/sh). On YoY basis, low base of Pkr571mn for NPAT in 1QCY20 leads to a phenomenal increase in earnings. To recall, GIDC elimination in 1QCY20 resulted in a gradual price decline of Pkr400/bag on urea industry wide, where a lag in pass-on of the benefit hurt EFERT's urea offtake during the aforementioned period. The revenue is expected to post 144%YoY increase, which coupled with stable gross margins, 60%YoY decline in finance cost and lower effective tax rate of 28% vs. 49% in the SPLY would translate into 7.7xYoY higher NPAT. While we have a Neutral stance on the scrip, we have not incorporated concessionary gas rates brought at par with industry rates in Jul'21, which could result in downward revision of our estimates.

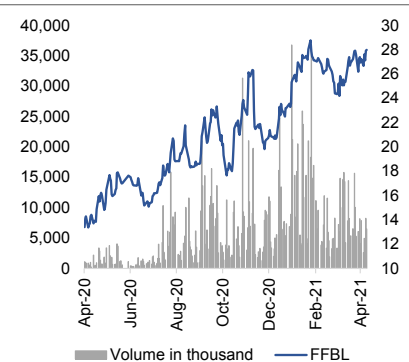
#### EFERT: Earnings estimate

(PkrMn)	1QCY21	1QCY20	YoY	4QCY20	QoQ
Net Sales	26,281	10,792	143.5%	27,708	-5.2%
Cost of sales	17,186	7,156	140.1%	18,321	-6.2%
Gross profit	9,095	3,635	150.2%	9,387	-3.1%
GMs	35%	34%	0.9%	34%	0.7%
Other income	532	261	103.5%	661	-19.6%
Finance cost	480	1,212	-60.4%	473	1.4%
PBT	6,073	1,122	441.4%	7,192	-15.6%
Tax	1,678	551	204.6%	549	205.6%
PAT	4,395	571	669.9%	6,643	-33.8%
EPS	3.29	0.43	669.9%	4.97	-33.8%
DPS	0.00	0.00	n.a.	4.00	n.a.

Source: Company Report & AKD Research

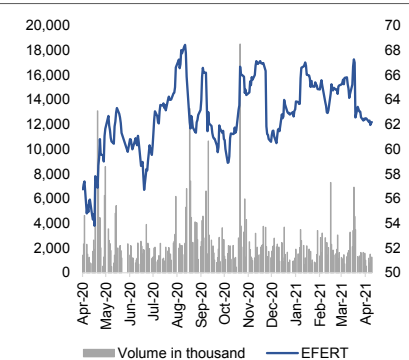
Ailia Naeem  
ailia.naeem@akdsecurities.net  
111-253-111 Ext:603

#### FFBL: Price performance



Source: PSX & AKD Research

#### EFERT: Price performance



Source: PSX & AKD Research



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## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques 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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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



**AKD Securities Limited**  
602, Continental Trade Centre,  
Clifton Block 8, Karachi, Pakistan.  
research@akdsecurities.net