

Pakistan Market Savvy

Fertilizer: Downgraded to 'Market-Weight', 1QCY25 Estimates

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Considering weak farm economies on the back of declining international agri-products/food prices and stable local urea prices, we may see fertilizer demand to remain lower in CY25. This is evident from recent fertilizer sales numbers as demand for all fertilizers including Urea, CAN, DAP and others sharply declined by 30%YoY during 2MCY25. Our estimate suggest that total fertilizer inventory stood higher at around 1.6mn tons by the end of March 2025 – which seems to be on a higher side and may create liquidity pressure. Thus, we are downgrading our stance on Fertilizer Sector from 'Over-Weight' to 'Market-Weight'.

FFC expected EPS of Rs9.7

Fauji Fertilizer (FFC) is expected to post unconsolidated earnings of Rs13.8bn (EPS Rs9.7) during 1QCY25 as compared to Rs10.5bn (EPS Rs7.4) during the same period last year, up by 31%YoY. Despite lower urea sales, increase in profitability is mainly led by higher gross margins (up 7ppt YoY) amid elevated urea prices as company increased retail prices at par with other fertilizer producers.

Despite fall in volumetric sales on sequential basis, earnings are expected to remain flat as company recorded one-off expenses due to merger with FFBL during the period. Moreover, we expect FFC to announce interim cash dividend of Rs7.5/share maintaining a dividend payout ratio of 80%. We expect gross margin to arrive at 36% in 1QFY25 versus 30% during the same period last year.

EFERT expected EPS of Rs1.85

Engro Fertilizer Limited (EFERT) is expected to post consolidated net earnings of Rs2.4bn (EPS Rs1.85) in 1QCY25 as compared to Rs10.8bn (EPS Rs8.1) during the same period last year, down by 77%YoY. This sharp decline in profitability is

Key Data			
Sector	Fertilizer		
Stance	Market-Weight		
Current Maket Cap. (Rs bn)	975		
Current Turnover (mn sh)	5.4		
Current Traded Value (Rs bn)	1.1		
	3m	6m	12m
Avg. Maket Cap. (Rs bn)	1054	1105	953
Avg. Turnover (mn sh)	5.6	8.5	11.4
Avg. Traded Value (Rs bn)	1.3	1.9	1.6

Source: PSX, Sherman Research

Earning Snapshot					
(Rs/sh)	EPS (Rs)				DPS
	1Q25E	1Q24A	YoY Δ%	QoQ Δ%	1Q25E
EFERT	1.9	8.1	-77%	-76%	2.0
FFC	9.7	7.4	31%	0%	7.5

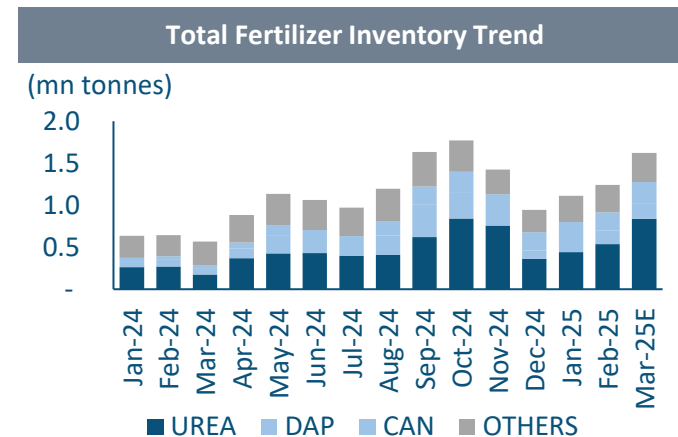
Source: Company Accounts, Sherman Research

mainly due to lower market share as Urea and DAP sales declined by 53%YoY and 71%YoY, respectively as company is offering urea at higher price as compared to peers.

Similarly, on sequential basis, earnings are expected to decline by 76%QoQ on the back of weak urea sales (down 63%YoY) and DAP sales (down 78%YoY).

Company's gross margin during 4QCY24 is expected to clock in at 23% compared to 31% during same period last year, down by 8pptYoY. Similarly, on sequential basis, margins are expected to decline by 13pptYoY.

Additionally, we expect finance cost to arrive at Rs1.1bn, remaining flat on yearly basis as higher borrowing level is offset by declining interest rates. Similarly, other Income is expected to fall sharply due to lower investments and interest rates during the period. Moreover, we expect interim cash dividend of Rs2 in 1QCY25.



Source: NFDC, Sherman Research

Fertilizer - Expected 1QCY25 Offtake			
('000 tonnes)	1QCY25E	1QCY24A	YoYΔ%
Urea Offtake			
Industry	1,101	1,827	-40%
Fauji Group	537	726	-26%
EFERT	260	548	-53%
Fatima	127	138	-8%
Others	177	416	-57%
DAP Offtake			
Industry	144	289	-50%
Fauji Group	89	187	-52%
EFERT	24	83	-71%
Others	31	18	65%

NM = Not Meaningful

Source: NFDC, Sherman Research

Risks to Valuation:

Risk to valuation includes: 1) Lower international and local Urea & DAP prices. 2) Continuation of urea production from closed fertilizer units. 3) Gas curtailment. 4) Payment of Gas Infrastructure Development Cess (GIDC). 5) Change in international Dap margin.

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Price Methodology:

To arrive at our period end Target Price, Sherman Securities uses different valuation methods which include : 1) Discounted Cash flow method 2) Relative Valuation method and 3) Justified Price to Book Value method.

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Rating Interpretation	
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Sell	≤ -10.0%
Hold	Between -10.0% to 16.5%