

# Fertilizers: 3QCY24 preview – FFC may continue outperformance on higher margins

- We present 3QCY24 earnings estimates for Fauji Fertilizer Company Limited (FFC), Engro Fertilizers Limited (EFERT) & Fauji Fertilizer Bin Qasim Limited (FFBL), where we expect FFC to continue outperforming peers on higher margins. We expect FFC to report EPS of Rs12.33 (+72% YoY), EFERT EPS of Rs5.36 (-25% YoY) and FFBL EPS of Rs4.28 (+4% YoY) for 3QCY24.
- Alongside result, we also expect FFC to announce Rs9 DPS, taking 9MCY24 DPS to Rs24.5. While some quarters of the market raise concerns on possibility of dividend announcements to pause till the ongoing amalgamation process is completed, regulations do not pose any limitations on the same. Having said that, absence of any interim dividends from FFC would adversely impact the stock price performance, in our view.
- Moreover, we expect EFERT to announce Rs5.5 DPS for 3QCY24, taking 9MCY24 DPS to Rs16.5. We don't expect any interim dividend announcement by FFBL this quarter.
- FFC and EFERT have outperformed the KSE100 Index during CY24 YTD, reporting gains of 119%/81%, respectively. We believe, the recent development on amalgamation of FFBL into FFC and FFC's relatively higher margins due to unchanged gas tariff for MARI connections, will keep FFC in the limelight.

## FFC earnings likely to remain intact; EFERT to grow QoQ

We preview 3QCY24 quarter results for Fauji Fertilizer Company Limited (FFC), Engro Fertilizers Limited (EFERT) & Fauji Fertilizer Bin Qasim Limited (FFBL), where we expect fertilizer players to post a mix bag of returns, where FFC and FFBL are likely to post a bottom line growth over the same period last year, with FFC to continue benefitting from lower gas tariff and higher prices off-setting the 12% YoY dip in Urea off-take. Wherein, EFERT is likely to remain under pressure decline due to 33% YoY lower Urea off-take during 3QCY24 majorly due to higher pricing compared to peers.

Nevertheless, on QoQ basis, EFERT would likely report an upsurge in earnings for 3QCY24 majorly driven by improved Urea sales after the resumption of Enven plant. Within JS Fertilizer Universe, we expect FFC to continue to outperform the peer group due to its higher margins.

### 3QCY24: JS Fertilizer Universe earnings preview

| (Rs/sh) | EPS     |      |      |         |     | DPS     |         |
|---------|---------|------|------|---------|-----|---------|---------|
|         | 3QCY24E | YoYΔ | QoQΔ | 9MCY24E | YoY | 3QCY24E | 9MCY24E |
| FFC     | 12.33   | 72%  | 1%   | 32.82   | 88% | 9.00    | 24.50   |
| EFERT*  | 5.36    | -25% | 329% | 12.42   | 10% | 5.50    | 16.50   |
| FFBL    | 4.28    | 4%   | -12% | 9.12    | NM  | -       | -       |

Source: Company accounts, JS Research, \*Consolidated

## Company-wise 3QCY24 earnings previews

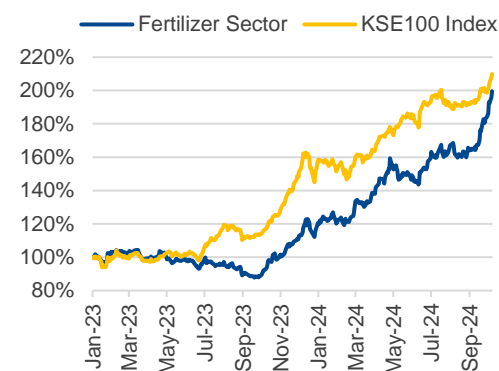
**Fauji Fertilizer Company Limited (FFC):** FFC's profitability is expected to remain elevated with a marginal increase of 1% QoQ, reaching Rs12.33/share primarily due to the continued availability of lower priced gas as compared to peers coupled

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### Sector performance relative to KSE100



Source: PSX, JS Research

### JS Fertilizer Universe

|        | PE (x) |       | DY   |      |
|--------|--------|-------|------|------|
|        | CY23   | CY24  | CY23 | CY24 |
| FFC    | 4.35   | 5.47  | 15%  | 14%  |
| EFERT* | 4.38   | 10.12 | 24%  | 12%  |
| FFBL   | 4.45   | 3.55  | 7%   | 6%   |

Source: JS Research, \* Consolidated

with higher prices. Resultantly, we expect FFC's gross margin to marginally improve QoQ to clock in at ~55%. Additionally, finance cost for the company is anticipated to increase by ~10% QoQ due to an increase in borrowings.

We expect FFC to announce an interim cash dividend of Rs9.0/share alongside quarter results, taking 9MCY24 DPS to Rs24.50. Some quarters of the market have of late shown concerns on continuity of dividend announcements from FFC till it completes the ongoing amalgamation process. As there are no regulatory restrictions, we maintain our dividend expectations. Having said that, if the company skips 3QCY24 interim dividend for any reason, we do not rule out an adverse impact on the stock price.

**Engro Fertilizers (EFERT):** EFERT's consolidated earnings for 3QCY24 are projected at Rs5.36/share, up 4.29x QoQ and down 25% YoY. The significant increase is mainly led by a recovery in sales volume of EFERT, which is expected to post a 52% QoQ growth as its Enven plant resumed operations by end of 2QCY24 after a turnaround (Apr-2024 through mid of Jun-2024). EFERT's net revenue is expected to improve by 52% QoQ.

We expect an interim cash dividend of Rs5.50/share in 3QCY24, which will take 9MCY24 DPS to Rs16.50.

**Fauji Fertilizer Bin Qasim (FFBL):** The company is expected to post earnings of Rs5.5bn for 3QCY24, translating into an EPS of Rs4.28 compared to an EPS Rs4.10 in 3QCY23. On a sequential basis, FFBL's sales revenue is likely to improve on a QoQ basis driven by an expected increase in DAP volumes of 37% QoQ, however, lower Urea off-take of 35% QoQ may limit the upside in top-line during the quarter. We expect the company to not announce any dividend alongside the result announcement.

**Bloomberg Code:** FFC PA

**Market Price:** Rs247.76

**Market Cap:** Rs315bn, US\$1,136mn

**1-yr ADTO:** 1.8mn shares, Rs261mn, US\$1.0mn

**1-yr High / Low:** Rs247.76 / 96.38

**Estimated free float:** 1,272mn shares (55%)

**Bloomberg Code:** EFERT PA

**Market Price:** Rs203.54

**Market Cap:** Rs272bn, US\$980mn

**1-yr ADTO:** 2.3mn shares, Rs315mn, US\$1.1mn

**1-yr High / Low:** Rs203.54 / 82.65

**Estimated free float:** 1,335mn shares (45%)

**Bloomberg Code:** FFBL PA

**Market Price:** Rs55.00

**Market Cap:** Rs71bn, US\$256mn

**1-yr ADTO:** 7.1mn shares, Rs240mn, US\$0.9mn

**1-yr High / Low:** Rs55.00 / 15.64

**Estimated free float:** 1,291mn shares (35%)

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