

FERTILIZER

OUTPERFORM

Low Offtakes to Drive 27% Y/Y Drop in Earnings

18 April 2025

- **Net profitability to decrease Y/Y in 1QCY25.** Optimus' fertilizer universe's net profitability is expected to experience a 27% Y/Y decline, clocking in at PKR 23.3 BN, during 1QCY25. This decline is attributed to: 1) 41%/57% Y/Y decline in Urea/DAP offtakes for our universe, 2) increase in international DAP prices, leading to lower margins, and 3) downward pressure on fertilizer prices due to low demand.
- **Decline in Urea offtakes Y/Y.** This quarter proved to be challenging for farmers, with farm economics remaining under pressure amid the on-going wheat price crisis and drought conditions in lower Punjab and Sindh, due to lower than expected rainfall. Moreover, fertilizer discounts offered in 4QCY24 prompted early stockpiling of Urea by farmers, dampening demand during the remainder of the Rabi season. These factors contributed to a 41%/57% decline in Urea/DAP offtakes, respectively.
- **Fertilizer prices remained under pressure.** Price of Urea/bag saw a ~4% Y/Y decline during 1QCY25, due to companies reducing prices to sell off excess inventory. DAP price/bag was also down ~3% Y/Y during the quarter, despite international DAP prices increasing 5% Y/Y from USD 592/ton during 1QCY24 to USD 623/ton in 1QCY25.
- **Sector outlook.** With sales remaining significantly low, Urea inventory remains elevated at 787 KT (up 378% Y/Y), which could prove challenging and costly for companies to offload. Furthermore, the gas price differential between Mari and SSGCL/SNGPL networks remained significant, which continues to hamper profitability of companies operating on gas networks from the latter. While we anticipate some recovery in volumes with the onset of the Kharif season, challenging farm economics may continue to constrain profitability.

Y/E: Dec	Mar-25E	CY25E	CY26E	
PKR/sh		EPS		FV
FFC	10.94	49.82	56.51	484
EFERT	2.15	19.40	24.82	221
FATIMA	2.32	18.32	20.08	101
PKR/sh		DPS		DY*
FFC	7.50	36.00	42.25	10%
EFERT	2.10	19.00	24.10	10%
FATIMA	-	7.50	10.50	8%

*DY on CY25E DPS

Source: Optimus Research

Muryum Palekar
muryum.palekar@optimus.pk
+9221 3529 6888 x 2304

REN: REP-107



Fertilizer Estimates for 1QCY25

2

- **EFERT to post EPS of PKR 2.15 in 1QCY25.** For the quarter ended Mar-25, EFERT's Urea offtakes declined by 58% Y/Y (63% Q/Q), while DAP and NP offtakes declined by 71% and 77% Y/Y, respectively. This decline was despite Urea discounts provided by the company for most of the quarter. We anticipate PAT to clock in at PKR 2,873 MN (down 63% Y/Y), along with a dividend of PKR 2.10/sh. Finance cost is expected to rise by 578% Y/Y due to an additional long-term loan of PKR 18 BN taken during CY24 to meet CAPEX needs.
- **FFC's EPS to clock in at PKR 10.94 in 1QCY25.** We expect FFC to post earnings of ~PKR 15,567 MN, with gross margins of 34.3%, up 8.73 ppts. Q/Q due to a post-merger one-off adjustment last quarter. During the quarter, FFC's Prilled Urea, Granular Urea, and DAP offtakes declined by 33%, 46%, and 53% Y/Y, respectively. Other income is expected to arrive at PKR 11.4 BN (up 68% Q/Q), of which PKR 6.7 BN is estimated to be received in dividends from the company's subsidiaries. We anticipate the company to pay a dividend of PKR 7.5/sh.
- **FATIMA to post earnings of PKR 2.32/sh in 1QCY25.** During Mar-25 quarter, FATIMA's Urea offtakes declined by 15% Y/Y, while CAN and NP offtakes declined by 21% and 23%, respectively. This is anticipated to result in a 42% Y/Y decline in earnings, with PAT expected to arrive at PKR 4,878 MN. We anticipate the company to pay no dividend this quarter. Finance cost is expected to rise 156% Y/Y due to additional long-term borrowing taken to meet medium term requirements of the company.

Fertilizer Universe Estimates

3

PKR MN	1QCY25E	4QCY24	3QCY24	2QCY24	1QCY24	Q/Q	Y/Y
Net Sales	142,001	320,762	229,214	189,259	244,753	-56%	-42%
Cost of Sales	(95,816)	(225,181)	(149,878)	(123,492)	(174,054)	-57%	-45%
Gross Profit	46,185	95,581	79,336	65,766	70,699	-52%	-35%
Distribution Cost	(12,810)	(24,610)	(13,688)	(12,548)	(15,384)	-48%	-17%
Admin Cost	(3,728)	(3,915)	(3,299)	(4,616)	(4,141)	-5%	-10%
Operating Profit	29,647	67,056	62,348	48,602	51,174	-56%	-42%
Finance Cost	(5,692)	(5,525)	(4,307)	(4,518)	(3,508)	3%	62%
Other Charges	(4,487)	(5,814)	(5,181)	(5,930)	(9,765)	-23%	-54%
Other Income	17,633	13,315	15,112	13,023	17,891	32%	-1%
Pre-tax Income	37,102	69,033	67,973	51,177	55,794	-46%	-34%
Taxation	(13,783)	(27,351)	(25,086)	(22,526)	(23,651)	-50%	-42%
Profit After Tax	23,319	41,681	42,887	28,651	32,143	-44%	-27%
Dividends	13,477	49,492	3,338	22,503	17,680	-73%	-24%
Gross Margins	33%	30%	35%	35%	29%		
Net Margin	16%	13%	19%	15%	13%		
Effective Tax Rate	37%	40%	37%	44%	42%		

Source: Company Accounts, Optimus Research

Company Specific Preview

4

PKR/sh	1QCY25E	4QCY24	3QCY24	2QCY24	1QCY24	Q/Q	Y/Y
EPS							
FFC	10.94	9.96	17.20	10.93	7.39	10%	48%
EFERT	2.15	7.70	6.41	1.25	5.81	-72%	-63%
FATIMA	2.32	6.49	4.38	2.47	4.00	-64%	-42%
DPS							
FFC	7.50	21.00	-	8.94	4.92	-64%	53%
EFERT	2.10	8.00	2.50	3.00	8.00	-74%	-74%
FATIMA	-	4.25	-	2.75	-	n.m	n.m

Source: Company Accounts, Optimus Research

Company Specific Margins

5

	1QCY25E	4QCY24	3QCY24	2QCY24	1QCY24	Q/Q	Y/Y
FFC							
Gross Margins	34%	26%	37%	54%	30%	8%	5%
Operating Margin	25%	19%	29%	45%	21%	6%	4%
Net Margin	25%	12%	23%	27%	20%	13%	5%
Effective Tax Rate	32%	43%	36%	43%	39%	-11%	-7%
EFERT							
Gross Margins	35%	35%	31%	18%	23%	0%	12%
Operating Margin	20%	22%	26%	9%	16%	-2%	4%
Net Margin	9%	12%	15%	4%	11%	-3%	-1%
Effective Tax Rate	38%	38%	39%	35%	36%	0%	2%
FATIMA							
Gross Margins	29%	32%	34%	38%	42%	-3%	-13%
Operating Margin	16%	23%	24%	25%	32%	-6%	-16%
Net Margin	10%	16%	15%	12%	13%	-6%	-3%
Effective Tax Rate	49%	37%	38%	49%	49%	12%	0%

Source: Company Accounts, Optimus Research

Analyst Certification

The research analyst for this report, Muryum Palekar, certifies that: (1) all of the views expressed in this report accurately reflect her personal views about the subject; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Disclaimer

This report has been prepared by Optimus Capital Management (Pvt.) Ltd. [Optimus] and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation or any offer to buy. While reasonable care has been taken to ensure that the information contained in this report is not untrue or misleading at the time of its publication, Optimus makes no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Optimus and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. Optimus as a firm may have business relationships, including investment banking relationships with the companies referred to in this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and Optimus accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. At the same time, it should be noted that investments in capital markets are also subject to market risks. This report may not be reproduced, distributed or published by any recipient for any purpose.