

Pakistan Fertilizer

Earnings to get a boost

In a recent development, FFC has increased urea price by PKR80/bag to pass on inflationary pressures. Recently, there was a lot of noise regarding increase in urea bag price due to depleting urea inventory and possible smuggling & hoarding on the back of skyrocketing international urea price. To note, urea availability remained a big challenge during peak rabi season, as product was selling at a significant premium due to illicit hoarding.

Possible shift towards WACOG as increase in gas price is long due which will increase cost of production for fertilizer manufacturers. Therefore, we may see another round of price hike in near future. However, rising inflation concerns has created a lot of noise and pressure on the federal gov't, therefore, possibility of gov't intervention in price setting cannot be ruled out.

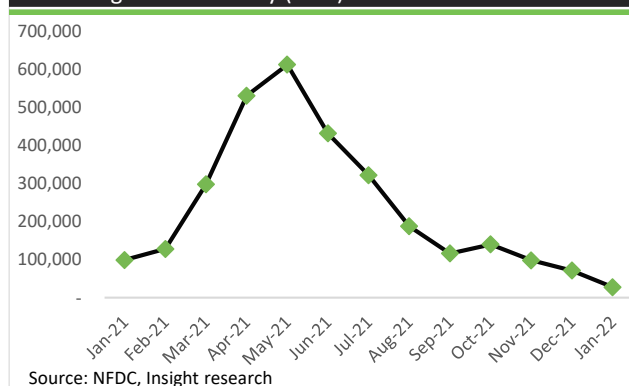
As per our back of the envelope working, increase of PKR80/bag will result in an earning impact of PKR2.23/sh on FFC and PKR0.48/sh on FFBL. As urea is a homogenous product therefore, we expect other fertilizer manufacturers (EFERT & FATIMA) to follow the suit. Similarly, incremental earning impact on EFERT and FATIMA will be PKR1.91/sh and PKR0.47/sh, respectively.

Earning impact of PKR80/bag increase in urea price

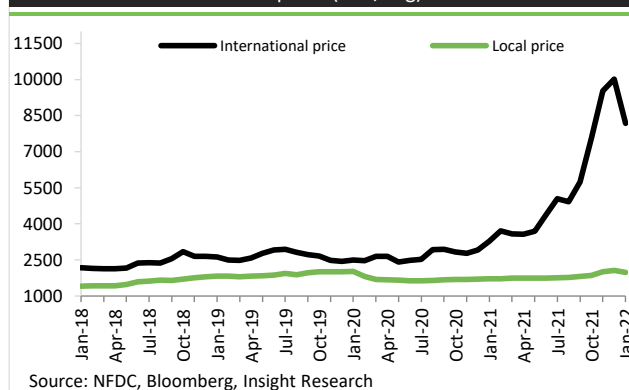
CY22F EPS	FFC	EFERT	FFBL	FATIMA
Current estimate	17.05	12.87	4.53	7.93
Incremental impact	2.23	1.91	0.48	0.47
% change	13%	15%	11%	6%

Source: Insight research

Declining urea inventory (tons)



International Vs Local urea price (PKR/bag)





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- Discounted cash flow (DCF)
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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate



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