



Fertilizer: Retrospective tax application to weigh on 2QCY22 pre tax earnings growth

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Retrospective tax application will erode pre-tax earnings growth

■ Budgetary measures will erode 2QCY22 expected pre-tax earnings growth

- With the onset of result season, we present 2QCY22 results preview of Akseer's fertilizer universe. Despite expected pre-tax earnings growth of 28% YoY in 2QCY22, fertilizer sector's bottom-line is likely to fall by 46% YoY in 2QCY22.

■ Higher taxes on fertilizer will be applicable on CY21 and onwards

- The Federal government has imposed substantial increase in taxation for the large scale industries (including fertilizer sector) in the Federal Budget FY23. The tax measures proposed will be applicable for Tax year 2022 onwards. Hence the fertilizer sector will be subjected to higher taxes for CY21 as well, which falls under the Tax year 2022.
- A 10% super tax is applicable to fertilizer companies earning above PKR 300mn in tax year 2022. All the companies in Akseer's Fertilizer universe have profits more than PKR 300mn making them liable to pay additional super tax on CY21 earnings.
- Moreover, the federal government has levied additional 4% super tax for the Tax year 2023 and onwards, which will be applicable to the fertilizer sector on CY22 earnings and onwards.

■ Impact on 2QCY22 earnings

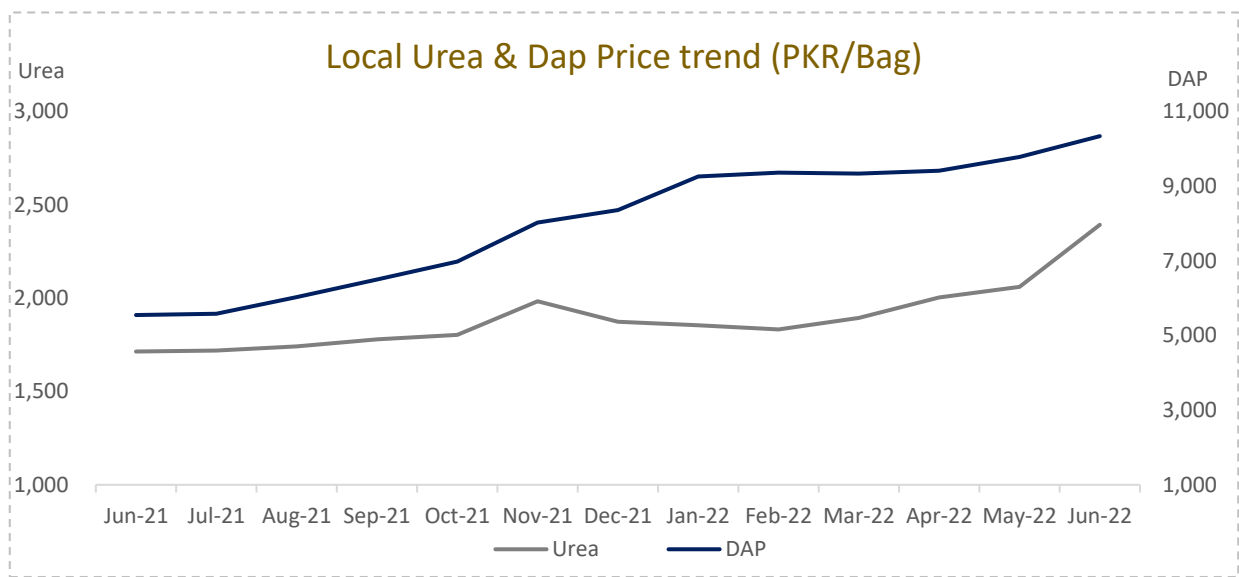
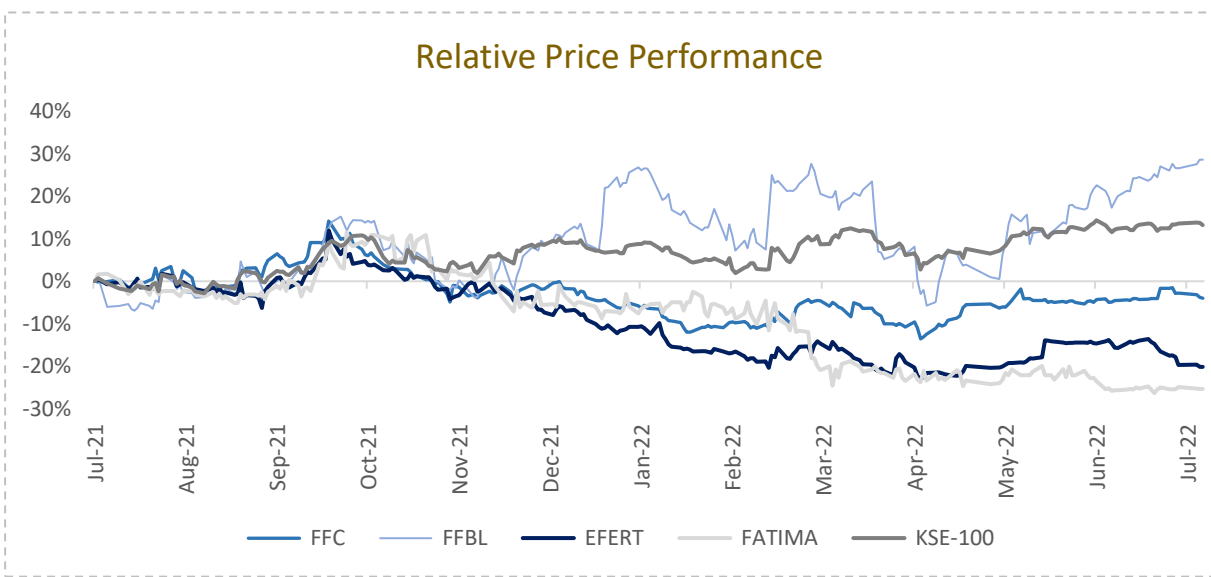
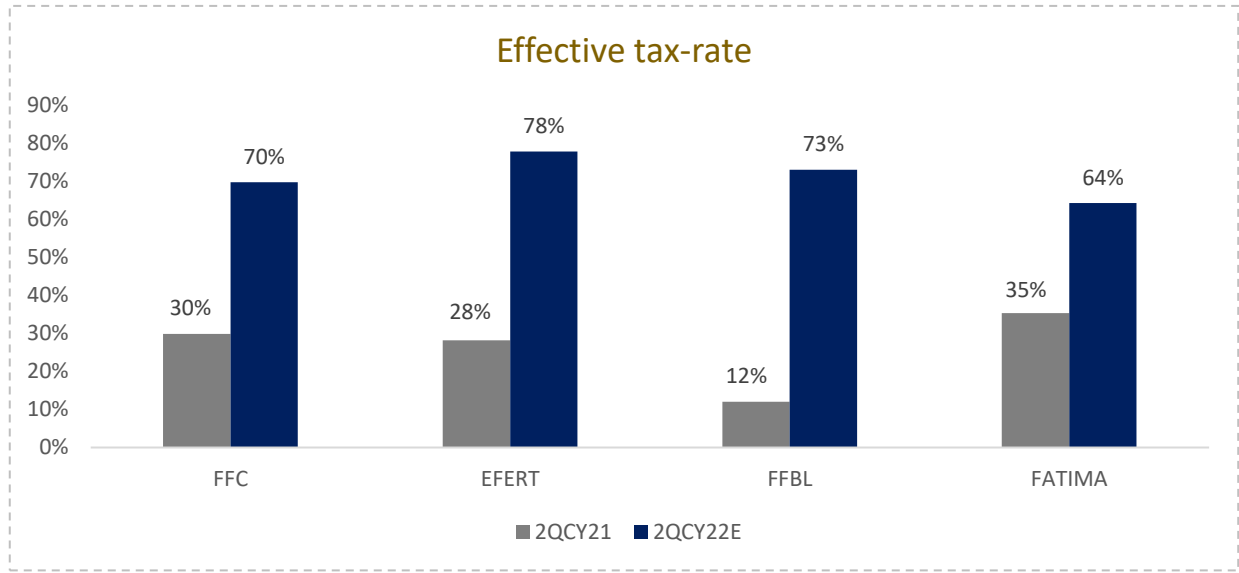
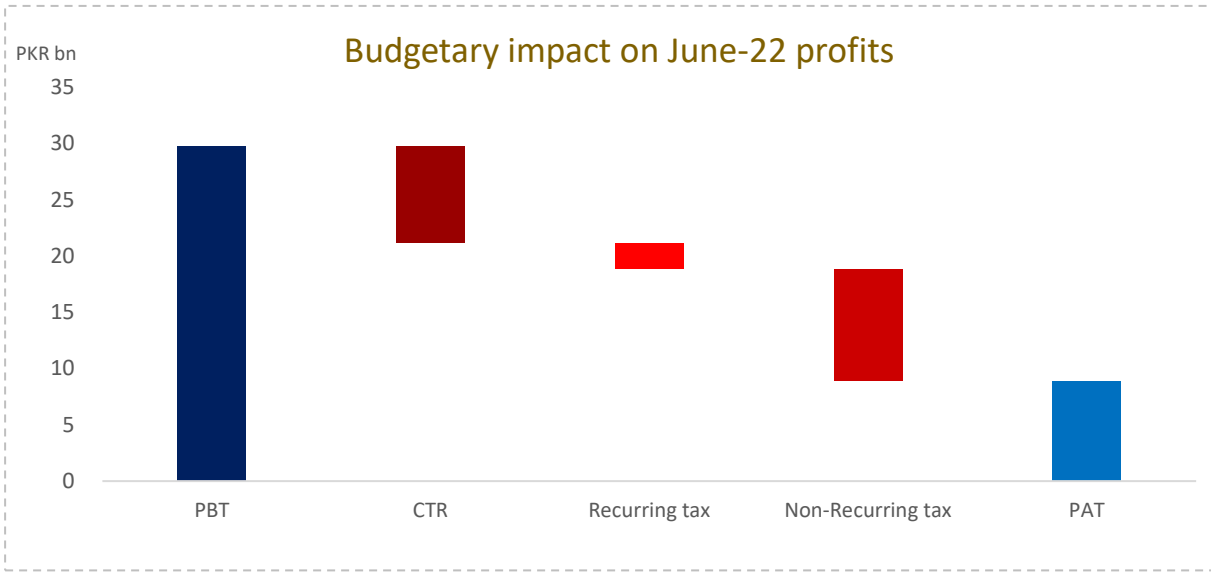
- Implication of recent budgetary measures will likely lower Akseer fertilizer universe recurring earnings for 2QCY22 by 14%.
- As per our calculation, non-recurring impact of CY21 tax adjustment would likely lower 2QCY22 earnings by further 32%.

Akseer Fertilizer Universe						
	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
Revenue	90,962	145,737	60.2%	176,603	262,763	48.8%
Cost of goods sold	58,177	100,779	73.2%	112,084	179,946	60.5%
Gross profit	32,785	44,958	37.1%	64,519	82,817	28.4%
<i>Gross Margins</i>	<i>36%</i>	<i>31%</i>	<i>-5.2%</i>	<i>37%</i>	<i>32%</i>	<i>-5.0%</i>
Selling & Admin	8,302	10,027	20.8%	16,162	19,281	19.3%
Operating Profits	24,483	34,931	42.7%	48,357	63,537	31.4%
Other Income	4,928	5,509	11.8%	9,790	10,943	11.8%
Other Expenses	3,929	6,391	62.7%	6,504	10,984	68.9%
Finance Cost	2,232	4,269	91.3%	4,115	6,939	68.6%
PBT	23,249	29,780	28.1%	47,528	56,556	19.0%
Tax	6,756	20,893	209.3%	14,447	28,604	98.0%
PAT	16,493	8,887	-46.1%	33,081	27,952	-15.5%

Akseer Fertilizer Universe EPS								
	1QCY22	2QCY21	2QCY22E	QoQ	YoY	1HCY21	1HCY22E	YoY
FFC	4.90	2.85	2.18	-55.5%	-23.5%	7.42	7.08	-4.6%
FFBL	1.26	2.02	0.66	-47.6%	-67.3%	3.00	1.92	-36.0%
EFERT	4.13	3.57	1.23	-70.2%	-65.5%	7.87	5.36	-31.9%
FATIMA	2.71	2.64	1.70	-37.3%	-35.6%	2.22	4.41	98.7%

Akseer Fertilizer Universe DPS								
	1QCY22	2QCY21	2QCY22E	QoQ	YoY	1HCY21	1HCY22E	YoY
FFC	3.70	2.60	1.70	-54.0%	-34.6%	6.10	5.40	-11.5%
EFERT	5.50	4.00	1.50	-72.7%	-62.5%	8.00	7.00	-12.5%

Key Charts



Fauji Fertilizer Company Limited (FFC)

- FFC is scheduled to announce its financial results for 1HCY22 on 28th June. The company's unconsolidated earning is expected to decline 23% YoY to PKR 2.78bn (EPS PKR 2.18) in 2QCY22.
- Gross margin is expected clock in at 39% up 4.5pp YoY on the back of higher urea prices (+27% YoY) along with increased Urea offtake (643K tons, +15.7% YoY).
- Other income is anticipated to grow to PKR 2.9bn (+98.9% YoY) amid higher income on short-term investments and better dividends from the PMP.
- Finance cost is expected to increase to PKR 1.9bn (+3.9x YoY).
- The effective tax rate is expected to reach 70% in 2QCY22.
- Along with the result, we expect the company to announce a DPS of PKR 1.7.

Financial Estimates (PKR Mn)						
	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
Net Sales	22,430	29,349	30.9%	44,018	55,664	26.5%
Cost of Sales	14,653	17,846	21.8%	27,807	34,803	25.2%
Gross Profit	7,776	11,503	47.9%	16,211	20,861	28.7%
Distri. & Admin. Exp.	1,956	2,054	5.0%	3,964	4,241	7.0%
Other Income	1,495	2,974	-55.8%	4,214	6,433	-11.6%
Other Charges	569	808	99.0%	1,292	1,535	52.6%
Finance Cost	385	1,915	41.9%	805	2,987	18.8%
Unwinding of GIDC	1,199	530	397.8%	1,199	1,059	271.3%
Profit Before Taxation	5,162	9,169	77.6%	13,165	17,471	32.7%
Taxation	1,541	6,392	314.8%	3,729	8,454	126.7%
Net Income	3,621	2,777	-23.3%	9,436	9,017	-4.4%
EPS	2.85	2.18	-23.5%	7.42	7.08	-4.6%
DPS	2.60	1.70	-34.6%	6.10	5.40	-11.5%
Key Ratios:						
Gross Margin	34.7%	39.2%		36.8%	37.5%	
Operating Margin	25.9%	32.2%		27.8%	29.9%	
EBITDA Margin	28.6%	36.2%		31.1%	34.1%	
Pre-tax margin	23.0%	31.2%		29.9%	31.4%	
Net Margin	16.1%	9.5%		21.4%	16.2%	

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Engro Fertilizers Limited (EFERT)

- EFERT is scheduled to announce its financial results for 1HCY22 on 28th June. The company is expected to report earnings of PKR 1.6bn (EPS PKR 1.23), down 66% YoY owing to higher effective tax (78%) and lower urea offtake (down 3% YoY).
- Increase in product prices will result in higher revenue of PKR 34.1bn (+31.4% YoY).
- Gross margin is expected to decline by 5pp YoY to 33%.
- Finance cost of the company is expected to reach PKR 671mn (+18% YoY).
- The effective-tax rate of the company is expected to clock in at 78% during 2QCY22.
- We expect the company to announce an interim cash dividend of PKR 1.50 for 2QCY22.

Financial Estimates (PKR Mn)						
	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
Net Sales	25,916	34,053	31.4%	55,359	70,866	28.0%
Cost of Sales	16,065	22,825	42.1%	33,951	48,777	43.7%
Gross Profit	9,851	11,228	14.0%	21,408	22,089	3.2%
Distri. & Admin. Exp.	2,531	2,554	0.9%	4,770	5,018	5.2%
Other Income	492	407	-17.3%	971	918	-5.4%
Other Charges	452	726	60.6%	1,124	1,175	4.5%
Finance Cost	570	671	17.6%	840	1,146	36.5%
Unwinding of GIDC	(156)	(312)	100.3%	(352)	(623)	77.2%
Profit Before Taxation	6,633	7,372	11.1%	15,293	15,045	-1.6%
Taxation	1,866	5,729	207.1%	4,784	7,890	64.9%
Net Income	4,768	1,643	-65.5%	10,509	7,155	-31.9%
EPS	3.57	1.23	-65.5%	7.87	5.36	-31.9%
DPS	4.00	1.50	-62.5%	8.00	7.00	-12.5%
Key Ratios:						
Gross Margin	38.0%	33.0%		38.7%	31.2%	
Operating Margin	28.2%	25.5%		30.1%	24.1%	
EBITDA Margin	27.8%	28.6%		26.4%	24.9%	
Pre-tax margin	25.6%	21.6%		27.6%	21.2%	
Net Margin	18.4%	4.8%		19.0%	10.1%	

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Fauji Fertilizer Bin Qasim Limited (FFBL)

- FFBL is scheduled to announce its financial results for 1HCY22 on 25th June. The company is expected to announce unconsolidated earnings of PKR 852mn (EPS 0.66), down 67% YoY in 2QCY22.
- Revenue is anticipated to reach PKR 45.7bn (+170% YoY) on the back of exponential rise in local DAP prices.
- Gross margins are expected to settle at 18.7% in 2Q (- 2.0 pp YoY) as phos-acid prices also rose 89.1% YoY.
- The company is expected to book exchange loss of PKR ~2.0bn on its payables due to sharp PKR depreciation against the USD.
- Finance cost will likely clock in at PKR 1.2bn (+90% YoY) owing to higher borrowings and interest rates.
- Effective tax rate of 73% in 2Q would further restrict the bottom-line growth.

Financial Estimates (PKR Mn)						
	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
Net Sales	16,912	45,731	170.4%	29,917	70,515	135.7%
Cost of Sales	13,417	37,169	177.0%	23,945	56,564	136.2%
Gross Profit	3,495	8,562	145.0%	5,973	13,952	133.6%
Distri. & Admin. Exp.	1,792	2,973	65.9%	2,994	5,015	67.5%
Other Income	2,483	1,579	-36.4%	4,049	2,695	-33.4%
Other Charges	290	2,503	763.0%	429	3,452	705.1%
Finance Cost	609	1,157	89.8%	1,260	1,862	47.8%
Unwinding of GIDC	323	366	13.4%	669	624	-6.7%
Profit Before Taxation	2,964	3,143	6.0%	4,670	5,694	21.9%
Taxation	355	2,292	545.8%	795	3,216	304.7%
Net Income	2,609	852	-67.4%	3,876	2,478	-36.1%
EPS	2.02	0.66	-67.3%	3.00	1.92	-36.0%
DPS	-	-		-	-	
Key Ratios:						
Gross Margin	20.7%	18.7%		20.0%	19.8%	
Operating Margin	10.1%	12.2%		10.0%	12.7%	
EBITDA Margin	11.4%	12.7%		11.5%	13.4%	
Pre-tax margin	17.5%	6.9%		15.6%	8.1%	
Net Margin	15.4%	1.9%		13.0%	3.5%	

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Fatima Fertilizer Company Limited (FATIMA)

- FATIMA is anticipated to witness 34% YoY decline in earnings to PKR 3.6bn (EPS PKR 1.7) in 2QCY22.
- With ~20% increase in overall fertilizer offtake to 560K tons, topline of the company is expected to be PKR 36bn, up by 42% YoY.
- Gross margins are expected to decline by 8.0pp YoY due to higher gas price on Pak Arab plant and higher phos-acid prices. Pak Arab plant has a private gas supply contract with Mari and phos-rock is one of the major raw material for NP.
- The effective tax-rate of the company is expected to clock in at 64% in 2QCY22.

Financial Estimates (PKR Mn)						
	2QCY21	2QCY22E	YoY	1HCY21	1HCY22E	YoY
Net Sales	25,704	36,603	42.4%	47,308	65,717	38.9%
Cost of Sales	14,042	22,938	63.4%	26,381	39,802	50.9%
Gross Profit	11,662	13,665	17.2%	20,927	25,916	23.8%
Distri. & Admin. Exp.	2,023	1,464	-27.6%	4,434	5,007	12.9%
Other Income	413	617	49.4%	1,198	2,338	95.1%
Other Charges	700	1,074	53.6%	1,198	2,338	95.1%
Finance Cost	668	526	-21.3%	1,211	943	-22.1%
Unwinding of GIDC	195	78	-60.2%	195	155	-20.4%
Profit Before Taxation	8,536	10,158	19.0%	14,446	18,411	27.4%
Taxation	2,994	6,501	117.1%	5,138	9,064	76.4%
Net Income	5,542	3,657	-34.0%	9,308	9,347	0.4%
EPS	2.64	1.70	-35.6%	2.22	4.41	98.7%
DPS	-	-		-	-	
Key Ratios:						
Gross Margin	45.4%	37.3%		44.2%	39.4%	
Operating Margin	37.5%	33.3%		34.9%	31.8%	
EBITDA Margin	42.8%	33.6%		39.4%	35.4%	
Pre-tax margin	33.2%	27.8%		30.5%	28.0%	
Net Margin	21.6%	10.0%		19.7%	14.2%	

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