Earning Review

EFERT: 2QCY21 EPS clocked in at Rs3.6, DPS Rs4.0

Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs4.8bn (EPS Rs3.60) in 2QCY21, up/down 24/16% YoY/QoQ against Rs3.9bn (EPS 2.91) in 2QCY20. This takes 1HCY21 profitability to Rs10.5bn (EPS Rs7.87) as compared to profit of Rs4.5bn (EPS Rs3.34) in 1HCY20.
- Result is also accompanied with dividend of Rs4.0/sh.
- The result is above our expectation due to better DAP trading margins.

Impact

- We attribute increase in 2QCY21 profitability to (1) better Urea retention prices, (2) increased profitability from fertilizer trading business, (3) decline in finance cost and (4) higher other income due to strong cash position of the company given advances from customers for DAP fertilizer.
- EFERT UREA/DAP offtake clocked in at 566/41K tons (down 19/48% YoY) in 2QCY21. EFERT DAP offtake declined due to lower imports by the company given volatile international prices, in our view.
- EFERT finance cost declined by 36% YoY in 2QCY21 due to (1) 625bps rate cut by SBP to mitigate the economic impact of COVID-19 and (2) lower working capital needs of the company.
- Furthermore, among other major heads, selling and distribution expenses declined by 14% YoY due to lower offtake.
- EFERT also booked reversal of Rs219mn GIDC re-measurement gain booked earlier and Rs64mn reversal of expected credit loss booked earlier on subsidy receivable from Gov't.
- Moreover, EFERT effective tax rate declined by 4.8ppt YoY to 27.9% in 2QCY21.

Outlook

- We have an "Underperform" stance on the scrip with Jun-22 TP of Rs59.4. Furthermore, end of concessionary gas flows along with the payment of GIDC on concessionary flows as per Supreme Court directives would reduce company's profitability and dividend payouts, in our view.
- However, Urea dynamics are expected to remain favorable for the company given restricted urea supply and better farmer agronomics.

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Fig 1: EFERT 2QCY21 Financial highlights

Rs (mn)	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY20	YoY
Revenue	25,916	29,911	-13%	-12%	55,359	40,703	36%
Cost of sales	(16,065)	(19,522)	-18%	-10%	(33,951)	(26,678)	27%
Gross profit	**9,851**	**10,390**	**-5%**	**-15%**	**21,408**	**14,025**	**53%**
Selling & distribution expenses	(2,036)	(2,371)	-14%	11%	(3,864)	(3,428)	13%
Admin exp	(495)	(362)	37%	20%	(906)	(720)	26%
S&A	(2,531)	(2,733)	-7%	13%	(4,770)	(4,148)	15%
Finance cost	(570)	(896)	-36%	112%	(840)	(2,108)	-60%
Other operating expense	(608)	(1,222)	-50%	-30%	(1,476)	(1,371)	8%
Other operating income	534	244	119%	11%	971	505	92%
PBT	6,675	5,782	15%	-23%	15,293	6,903	122%
PAT	**4,810**	**3,886**	**24%**	**-16%**	**10,509**	**4,457**	**136%**
EPS@1335mn sh	3.60	2.91			7.87	3.34	
DPS	4.0	5.0			8.0	5.0	
GM	38%	35%			39%	34%	
NM	19%	13%			19%	11%	

Source: PSX, Foundation Securities, July 2021

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Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.