

# Earning Review

## EFERT: 3QCY21 EPS clocked in at Rs3.3, DPS Rs3.5

### Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs4.4bn (EPS of Rs3.30) in 3QCY21, down 37/7% YoY/QoQ against Rs7.0bn (EPS of 5.27) in 3QCY20. This takes 9MCY21 profitability to Rs14.9bn (EPS Rs11.17) as compared to profit of Rs11.5bn (EPS Rs8.61) in 9MCY20.
- Result is also accompanied with dividend of Rs3.5/sh accumulating into 9MCY21 payout of Rs11.5/sh.

### Impact

- We attribute decline in 3QCY21 profitability to (1) lower Urea/DAP offtake, (2) higher other operating expense due to reversal of GIDC remeasurement gain, (3) ending of concessionary gas on feedstock gas for EnVen plant and (4) increased repair & maintenance cost due to turnaround of its EnVen plant in 3QCY21.
- EFERT UREA/DAP offtake clocked in at ~561/103K tons (down 9/46% YoY) in 3QCY21. EFERT DAP offtake declined due to lower imports by the company given volatile international prices, in our view.
- EFERT finance cost declined by 35/25% YoY/QoQ in 3QCY21 due to lower working capital requirement given better cash position of the company. Furthermore, sequential decline in finance cost is against our expectation, we wait for management clarity on this front.
- Furthermore, among other major heads, selling and distribution expenses declined by 17% YoY due to lower offtake.
- EFERT also booked reversal of Rs269.8mn GIDC re-measurement gain booked earlier and Rs108.3mn reversal of expected credit loss booked earlier on subsidy receivable from Gov't.
- Moreover, EFERT effective tax rate clocked in at 30.4% in 3QCY21 as compared to 2.4% in 3QCY20.

### 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 3QCY21 Financial highlights (Rs mn)

Rs (mn)	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Revenue	37,383	37,435	0%	44%	92,742	78,138	19%
Cost of sales	(27,768)	(26,592)	4%	73%	(61,718)	(53,270)	16%
<b>Gross profit</b>	<b>9,615</b>	<b>10,843</b>	<b>-11%</b>	<b>-2%</b>	<b>31,024</b>	<b>24,868</b>	<b>25%</b>
Selling & distribution expenses	(2,133)	(2,563)	-17%	5%	(5,996)	(5,990)	0%
Admin exp	(453)	(515)	-12%	-8%	(1,360)	(1,235)	10%
<b>S&amp;A</b>	<b>(2,586)</b>	<b>(3,077)</b>	<b>-16%</b>	<b>2%</b>	<b>(7,356)</b>	<b>(7,225)</b>	<b>2%</b>
Finance cost	(426)	(655)	-35%	-25%	(1,266)	(2,763)	-54%
Other operating expense	(723)	(408)	77%	19%	(2,199)	(1,779)	24%
Other operating income	458	501	-9%	-7%	1,429	1,006	42%
PBT	6,339	7,203	-12%	-4%	21,632	14,107	53%
<b>PAT</b>	<b>4,412</b>	<b>7,034</b>	<b>-37%</b>	<b>-7%</b>	<b>14,921</b>	<b>11,491</b>	<b>30%</b>
EPS@1335mn sh	3.30	5.27			11.17	8.61	
DPS	3.5	5.0			11.5	9.0	
<b>GM</b>	<b>26%</b>	<b>29%</b>			<b>33%</b>	<b>32%</b>	
<b>NM</b>	<b>12%</b>	<b>19%</b>			<b>16%</b>	<b>15%</b>	

Source: PSX, Foundation Securities, October 2021

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