

Foundation Alert

EFERT: 9MCY21 Analyst Briefing Takeaways

Event

- Engro Fertilizer Limited (EFERT PA) held its Analyst briefing yesterday to discuss its financial/operational performance for 9MCY21. Following are the key takeaways of the briefing.

Impact

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs14.9bn (EPS Rs11.2, up 30% YoY) in 9MCY21 as compared to profit of Rs11.5bn (EPS 8.61) in 9MCY20.
- Management attributes increase in 9MCY21 profitability to (1) higher Urea offtake amid better retention prices, (2) better DAP trading margins, (3) lower finance cost, and (4) higher other income.
- EFERT Urea sales clocked in at 1,644tons (up 13% YoY) in 9MCY21. Management attributes higher offtake to large carryforward inventory by the company amid better agronomics. To highlight, EFERT Urea production declined by 7.9% YoY to 1,560K tons in 9MCY20 due to plant maintenance of EnVen in Sep'21 and lower production in 1HCY21.
- Company management also discussed improvement in farmer agronomics and shared that farmer income from wheat crop increased by 59% YoY due to higher support prices and in sugarcane crop farmer income increased by 47% YoY in 2021.
- EFERT management also discussed that industry is selling Urea at 75% discount to current landed cost for imported Urea, which would result in higher pricing power for the industry.
- Furthermore, EFERT phosphate sales declined by 15% YoY to 214K tons in 9MCY21. Decline in phosphate demand is due to higher prices as DAP prices in domestic market increased by 64% YoY to Rs6,463/bag compared to 81% YoY increase in international markets.
- Income tax disallowance (subject to maximum 10% of total expenses) have become applicable from Oct 01'2021.
- EFERT has stopped sales to unregistered dealers to whom annual sales exceed Rs100mn and also recognized provision for sales/income tax disallowance.
- On the positive side, the minimum tax and withholding rates for dealers have been reduced from 0.75% and 0.7% to 0.25% respectively.
- EFERT finance cost declined by 54% YoY in 9MCY21 due to decline in interest rates and lower working capital needs of the company.
- At present, company's total subsidy receivable stands at Rs6.5bn against Rs20bn of the industry and its sales tax receivable stand Rs4.54bn as compared to Rs45bn receivable of the industry.
- Management also shared that company is in negotiations with relevant stakeholders regarding its concessionary gas flows and has obtained interim stay order from Sindh High Court.
- Furthermore, management has also disclosed that EFERT is in continuous discussion with Gov't for extension of concessionary gas for number of days during which SNGP hasn't supplied minimum contract requirement.
- Moreover, the company continues to explore opportunities within the agriculture space to create value for the shareholders.

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.

Fig 1: EFERT 3QCY21 Financial highlights

| 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% |
| Gross profit | 9,615 | 10,843 | -11% | -2% | 31,024 | 24,868 | 25% |
| S&D expenses | (2,133) | (2,563) | -17% | 5% | (5,996) | (5,990) | 0% |
| Admin expense | (453) | (515) | -12% | -8% | (1,360) | (1,235) | 10% |
| S&A | (2,586) | (3,077) | -16% | 2% | (7,356) | (7,225) | 2% |
| Finance cost | (426) | (655) | -35% | -25% | (1,266) | (2,763) | -54% |
| Other expense | (723) | (408) | 77% | 19% | (2,199) | (1,779) | 24% |
| Other income | 458 | 501 | -9% | -7% | 1,429 | 1,006 | 42% |
| PBT | 6,339 | 7,203 | -12% | -4% | 21,632 | 14,107 | 53% |
| PAT | 4,412 | 7,034 | -37% | -7% | 14,921 | 11,491 | 30% |
| EPS@1335mn sh | 3.30 | 5.27 | | | 11.17 | 8.61 | |
| DPS | 3.5 | 5.0 | | | 11.5 | 9 | |
| GM | 26% | 29% | | | 33% | 32% | |
| NM | 12% | 19% | | | 16% | 15% | |

Source: PSX, Foundation Securities, October 2021

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Recommendations definitions

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