

Earning Review

EFERT: 4QCY21 EPS clocked in at Rs4.62, DPS Rs5.0

Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs6.2bn (EPS Rs4.62) in 4QCY21, down/up 7/40% YoY/QoQ against Rs6.6bn (EPS 4.97) in 4QCY20.
- Result is also accompanied with dividend of Rs5.0/sh, cumulating into full year dividend of Rs16.5/sh ,

Impact

- We attribute decrease in 4QCY21 profitability to (1) higher other operating expense of Rs1.7bn compared to reversal of Rs756mn in 4QCY20, (2) lower Urea offtake, (3) ending of concessionary gas flows, (4) reduced other income and (5) higher taxation charge. To recall, in 4QCY20 company booked gain of Rs2.1bn on account of GIDC re-measurement liability.
- However, DAP offtake amid better trading margins along with higher urea retention prices and reduced finance cost has provided support to the company's profitability.
- EFERT gross margin decreased by 94bps to 32.9% YoY in 4QCY21 due to ending of concessionary flows and lower urea offtakes by 3% YoY.
- Company's DAP offtake increased by ~32.7% YoY in 4QCY21 due to lower inventory levels with competitors despite 92% YoY increase in prices. However, company's DAP sales declined by 20% YoY in CY21 to 296k tons.
- EFERT finance cost declined by 29/21% YoY/QoQ in 4QCY21.
- Furthermore, among other major heads, selling and distribution expenses decreased by 3% YoY due to lower Urea offtakes despite higher HSD prices of 31% YoY and higher DAP offtakes.
- EFERT also booked gain of Rs44mn on account of GIDC re-measurement gain against expectation of reversal.
- Moreover, EFERT booked higher effective tax rate of 25.3% in 4QCY21 compared to 7.6% in 4QCY20.

Outlook

- We expect EFERT dividend paying ability to significantly reduce in future due to (1) payment of ~Rs49bn (post adjustment of Sales tax and subsidy) in lieu of GIDC and (2) higher average gas price due to ending of concessionary gas flows by CY22.
- However, strong agronomics given increase in support prices for major cash crops and lower Urea inventory level would keep Urea pricing power with base players, in our view.

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Fig 1: EFERT 4QCY21 Financial highlights (Rs mn)

Rs (mn)	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Revenue	39,621	27,708	43%	6%	132,363	105,846	25%
Cost of sales	(26,571)	(18,321)	45%	-4%	(88,289)	(71,592)	23%
Gross profit	13,050	9,387	39%	36%	44,074	34,255	29%
Selling & distribution expenses	(2,533)	(2,467)	3%	19%	(8,530)	(8,457)	1%
Administration Expenses	(541)	(673)	-20%	19%	(1,900)	(1,908)	0%
S&A	(3,074)	(3,140)	-2%	19%	(10,430)	(10,365)	1%
Finance cost	(337)	(473)	-29%	-21%	(1,602)	(3,236)	-50%
Other operating expense	(1,743)	756	na	141%	(3,942)	(1,022)	286%
Other operating income	362	661	-45%	-21%	1,790	1,667	7%
Profit before taxation	8,258	7,192	15%	30%	29,890	21,298	40%
Profit after taxation	6,172	6,643	-7%	40%	21,093	18,133	16%
EPS	4.62	4.97			15.80	13.58	
DPS	5.0	4.0			16.5	15.0	
GM	32.9%	33.9%			33.3%	32.4%	
NM	15.6%	24.0%			15.9%	17.1%	

Source: PSX, Foundation Securities, February 2022

Important disclosures:

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If	
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Expected return from -10% to +10%	Neutral.
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