

Earning Review

EFERT: 1QCY22 EPS clocked in at Rs4.13, DPS Rs5.5

Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs5.5bn (EPS Rs4.13) in 1QCY22, down 4/11% YoY/QoQ against Rs5.7bn (EPS 4.30) in 1QCY21.
- Result is also accompanied with dividend of Rs5.5/sh.

Impact

- We attribute decrease in 1QCY22 profitability to (1) ending of concessionary gas flows, (2) decline in Urea offtake and (3) higher finance cost.
- However, higher DAP offtake amid better trading margins along with higher urea retention prices has provided support to the company's profitability.
- EFERT gross margin decreased by 975bps to 29.5% YoY in 1QCY22 due to ending of concessionary flows and 11% YoY decline in Urea offtake. Company's DAP offtake increased by ~6% YoY in 1QCY22.
- EFERT finance cost increased by 76/41% YoY/QoQ in 1QCY22 due to increase in interest rates.
- Furthermore, among other major heads, selling and distribution expenses increased by 10% YoY due to higher HSD prices and increase in DAP offtakes.
- EFERT also booked reversal of Rs226mn on account of GIDC re-measurement gain booked earlier.
- Moreover, EFERT effective tax rate clocked in at 28.2% in 1QCY22 as compared to 33.7% in 1QCY21.

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, (2) higher average gas price due to ending of concessionary gas flows and (3) normalization of DAP trading margins.
- 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.

Analyst

Muhammad Awais Ashraf, CFA
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 1: EFERT 1QCY22 Financial highlights (Rs mn)

	1QCY22	1QCY21	YoY	QoQ
Revenue	36,813	29,444	25%	-7%
Cost of sales	(25,952)	(17,886)	45%	-2%
Gross profit	10,861	11,558	-6%	-17%
S&D expense	(2,015)	(1,827)	10%	-20%
Admin expense	(449)	(412)	9%	-17%
S&A	(2,464)	(2,239)	10%	-20%
Finance cost	(475)	(269)	76%	41%
Other operating expense	(760)	(869)	-12%	-56%
Other operating income	511	479	7%	41%
PBT	7,673	8,660	-11%	-7%
PAT	5,511	5,741	-4%	-11%
EPS	4.13	4.30		
DPS	5.5	4.0		
GM	29.5%	39.3%		
NM	15.0%	19.5%		

Source: PSX, Foundation Securities, April 2022

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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