

## Earning Review

### EFERT: 2QCY22 LPS clocked in at Rs0.07

#### Event

- Engro Fertilizer Limited (EFERT PA) loss clocked in at Rs98mn (LPS Rs0.07) in 2QCY22 against Rs4.8bn (EPS 3.57) in 2QCY21. This takes 1HCY22 profitability to Rs5.4bn (EPS Rs4.05, down 48% YoY) against profit of Rs10.5bn (EPS Rs7.87) in 1HCY21.
- The result is below our expectations due to higher charge for super tax and significant increase in other operating expenses.

#### Impact

- We attribute decline in company profitability to imposition of super tax in FY22 budget. Furthermore, EFERT core profitability increased by 19/8% YoY/QoQ in 2QCY22 due to (1) higher Urea retention prices (up 10% YoY), (2) ~18% YoY increase in DAP trading margins and (3) ~33% YoY increase in DAP offtake.
- EFERT finance cost increased by 2/23% YoY/QoQ in 2QCY22 due to increase in interest rates, in our view.
- Furthermore, among other major heads, admin expenses increased by 88% YoY in 2QCY22.
- EFERT also booked reversal of Rs130mn on account of GIDC re-measurement gain booked earlier and Rs304mn provision for expected credit loss on subsidy receivable from Government.
- To highlight, EFERT other operating expenses increased by 202% YoY in 2QCY22, we are waiting for management clarity on this front.
- Moreover, EFERT effective tax rate clocked in at 101.4% in 2QCY22 as compared to 28.1% in 2QCY21. Increase in super tax is attributable to imposition of super tax in FY23 budget.

#### Outlook

- We have an “Underperform” stance on the stock with Dec-22 TP of Rs62.3. 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.

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Fig1: EFERT 4QCY21 Financial highlights

Rs (mn)	2QCY22	2QCY21	YoY	QoQ	1HCY22	1HCY21	YoY
Revenue	38,323	25,916	48%	4%	75,136	55,359	36%
COGS	(26,632)	(16,065)	66%	3%	(52,585)	(33,951)	55%
<b>Gross profit</b>	<b>11,691</b>	<b>9,851</b>	<b>19%</b>	<b>8%</b>	<b>22,552</b>	<b>21,408</b>	<b>5%</b>
S&D expense	(1,778)	(2,036)	-13%	-12%	(3,793)	(3,864)	-2%
Admin expense	(931)	(495)	88%	107%	(1,380)	(906)	52%
<b>S&amp;A</b>	<b>(2,709)</b>	<b>(2,531)</b>	<b>7%</b>	<b>10%</b>	<b>(5,173)</b>	<b>(4,770)</b>	<b>8%</b>
Finance cost	(583)	(570)	2%	23%	(1,057)	(840)	26%
Other op expense	(1,838)	(608)	202%	142%	(2,598)	(1,476)	76%
Other income	588	492	20%	15%	1,099	971	13%
<b>PBT</b>	<b>7,149</b>	<b>6,633</b>	<b>8%</b>	<b>-7%</b>	<b>14,822</b>	<b>15,293</b>	<b>-3%</b>
PAT	(98)	4,768	-102%	-102%	5,413	10,509	-48%
<b>EPS</b>	<b>(0.07)</b>	<b>3.57</b>			<b>4.05</b>	<b>7.87</b>	
DPS	0.0	4.0			5.5	8.0	
GM	30.5%	38.0%			30.0%	38.7%	
NM	-0.3%	18.4%			7.2%	19.0%	

Source: PSX, Foundation Securities, July 2022

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