

Earning Review

EFERT: 3QCY22 EPS clocked in at Rs3.1, DPS Rs3.0

Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs4,182mn (EPS Rs3.13, down 5.2% YoY) in 3QCY22 against Rs4,412mn (EPS 3.30) in 3QCY21. This takes 9MCM22 profitability to Rs9,595mn (EPS Rs7.19, down 36% YoY) against profit of Rs14,921mn (EPS Rs11.17) in 9MCM21.
- The result is accompanied with cash payout of Rs3.0 per share, taking half year payout to Rs8.5 per share.

Impact

- We attribute decline in company profitability to (1) lower Urea/DAP offtake due to severe flooding across the country given higher monsoon rains, (2) increase in finance cost due to higher interest rates, (3) higher effective tax rate and (4) higher plant maintenance cost, in our view.
- EFERT finance cost increased by 37% YoY in 3QCY22 due to increase in interest rates.
- Furthermore, among other major heads, admin/S&D cost increased by 9/5% YoY in 3QCY22.
- EFERT also booked reversal of Rs243mn on account of GIDC re-measurement gain booked earlier and fresh provision of Rs27mn expected credit loss on subsidy receivable from Government.
- To highlight, EFERT other operating expenses declined significantly in 3QCY22, we wait for management clarity on this front.
- Moreover, EFERT effective tax rate clocked in at 32.8% in 3QCY22 as compared to 30.4% in 3QCY21. Increase in effective tax rate 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 amid government focus on food security would keep Urea pricing power with base players, in our view.

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Fig1: EFERT 3QCY22 Financial highlights

Rs (mn)	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Revenue	35,739	37,383	-4%	-7%	110,876	92,742	20%
COGS	25,987	27,768	-6%	-2%	78,572	61,718	27%
Gross profit	9,752	9,615	1%	-17%	32,304	31,024	4%
S&D expense	2,242	2,133	5%	26%	6,035	5,996	1%
Admin expense	493	453	9%	-47%	1,873	1,360	38%
S&A	2,734	2,586	6%	1%	7,908	7,356	8%
Finance cost	582	426	37%	0%	1,640	1,266	30%
Other op expense	421	723	-42%	-77%	3,019	2,199	37%
Other income	205	458	-55%	-65%	1,304	1,429	-9%
PBT	6,219	6,339	-2%	-13%	21,041	21,632	-3%
PAT	4,182	4,412	-5.2%	na	9,595	14,921	-36%
EPS	3.13	3.30			7.19	11.17	
DPS	3.0	3.5			8.5	11.5	
GM	27.3%	25.7%			29.1%	33.5%	
NM	11.7%	11.8%			8.7%	16.1%	

Source: PSX, Foundation Securities, October 2022

Important disclosures:

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