PAKISTAN **October 12, 2022**

Foundation Alert

EFERT: Analyst Briefing Takeaways

Event

- Engro Fertilizer Limited (EFERT PA) held its Analyst Briefing today to discuss financial/operational performance during 9MCY22 and future prospects of the company. Following are the key takeaways of the company.

Impact

- 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 9MCY22 profitability to Rs9,595mn (EPS Rs7.19, down 36% YoY) against profit of Rs14,921mn (EPS Rs11.17) in 9MCY21.
- Management attributes decline in company's profitability to (1) imposition of super tax in FY22 budget, (2) decline in Urea offtake due to lower carryforward inventory and (3) lower DAP offtake.
- Company has charged 10% super tax on CY21 taxable income amounting to Rs3bn, 4% super tax on 9MCY22 taxable income amounting to Rs853mn and change in current deferred tax position of Rs1.6bn due to imposition of super tax.
- Furthermore, management attributes increase in current Urea prices to (1) Gov't decision to exempt fertilizer from sales tax in FY23 budget (sales tax treatment changed from adjustable against output tax to part of cost), (2) increase in cost of gas flows received under petroleum policy and (3) higher financing cost to bridge funding gap created due to subsidy/sales tax receivable from Gov't.
- EFERT management also disclosed that company Urea production remained muted at 1.56mn tons, while Urea offtake declined 12.8% YoY to 1.52mn tons in 9MCY22. Management attributes decline in Urea offtake to lower carry-forward inventory in 9MCY22 and flooding across the country in 3QCY22.
- Management also discussed that company has closed its base plant on Sep 27'2022 for 60 days to carry out maintenance activity.
- EFERT management shared details of updated profitability of farmers in different crops and disclosed that expected profitability of Wheat/Rice crop increased by 27/73% in current season to Rs49.4/48.9K/acre. However, earnings from sugar crop is expected to decline due to lower yields in current season.
- Management has also disclosed updated position of its sales tax refund from Gov't that are currently standing at Rs12.4bn as compared to Rs8.9bn at the end of CY21. To highlight, EFERT subsidy receivable from Gov't stands at Rs6.5bn.
- Company advocates for new fertilizer policy with the key focus on creating competitive environment through removal of subsidy on gas, de-regulation of Urea prices and allowing of exports amid encouragement to tap indigenous resources.

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.

Fig1: EFERT 9MCY22 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

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Recommendations definitions

If

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