

Earning Review

EFERT: 1QCY23 EPS clocked in at Rs4.4, DPS Rs3.5

Event

- Engro Fertilizer Limited (EFERT PA) profitability clocked in at Rs4.4bn (EPS Rs3.3) in 1QCY23, down 20/31% YoY/QoQ against Rs5.5bn (EPS 4.13) in 1QCY22.
- Result is also accompanied with a cash dividend of Rs3.5/sh.

Impact

- We attribute decrease in 1QCY23 profitability to (1) higher gas prices, (2) decline in phosphate offtake and (3) higher loss on subsidy receivables from GoP.
- However, urea offtake remained unchanged during the quarter.
- EFERT gross margin decreased by 500bps to 24.5% YoY in 1QCY23 due to higher gas prices and 40% YoY decline in DAP offtake.
- EFERT finance cost decreased by 8/56% YoY/QoQ in 1QCY23 due to lower working capital requirement despite increase in interest rates.
- Furthermore, among other major heads, selling and distribution expenses increased by 22% YoY due to higher HSD prices and inflationary pressures.
- EFERT also booked reversal of Rs220mn on account of GIDC re-measurement gain booked earlier and loss allowance of Rs432mn on subsidy receivables from GoP.
- Moreover, EFERT effective tax rate clocked in at 35.1% in 1QCY23 as compared to 28.2% in 1QCY22.

Outlook

- We have an “Underperform” stance on the stock with Dec-23 TP of Rs60. 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, improving 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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Fig 1: EFERT 1QCY23 Financial highlights (Rs mn)

Rs (mn)	1QCY23	1QCY22	YoY	QoQ
Revenue	43,991	36,813	19%	-5%
Cost of sales	(33,216)	(25,952)	28%	-7%
Gross profit	10,775	10,861	-1%	2%
Selling & distribution expenses	(2,468)	(2,015)	22%	-36%
Administration Expenses	(555)	(449)	24%	61%
S&A	(3,022)	(2,464)	23%	-28%
Finance cost	(435)	(475)	-8%	-56%
Other operating expense	(1,244)	(760)	64%	43%
Other operating income	717	511	40%	-30%
Profit before taxation	6,790	7,673	-12%	23%
Profit after taxation	4,404	5,511	-20%	-31%
EPS	3.30	4.13		
DPS	3.5	5.5		
GM	24.5%	29.5%		
NM	10.0%	15.0%		

Source: PSX, Foundation Securities, April 2023

Important disclosures:

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Recommendations definitions

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