

Day Break

Wednesday, 29 July 2020

Company Update

Exhibit: EFERT offtake for 2QCY20 (000'tons)

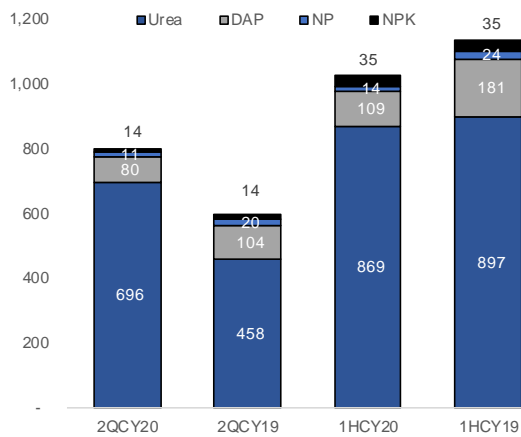


Exhibit: EFERT production for 2QCY20 (000'tons)

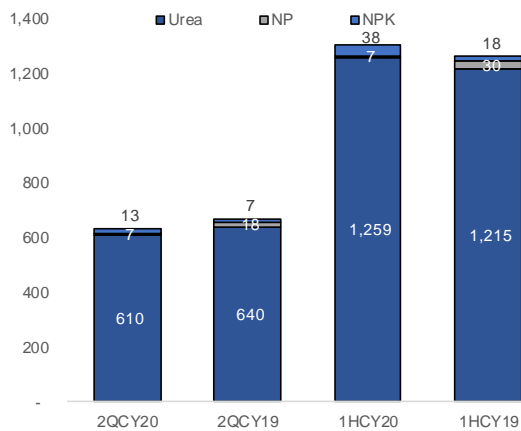
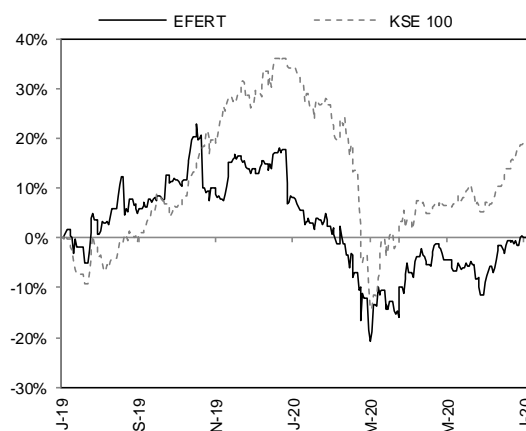


Exhibit: Relative price performance to KSE-100



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Fertiliser

EFERT: Highest ever urea-off take along with lower finance cost bodes favourably for EFERT'S Bottom-line

- ✓ Engro Fertilizer Company Limited (EFERT) is all slated to announce its financial result on 29th-Jul-2020 for the quarter ended Jun'20, wherein, we expect EFERT to announce NPAT of PKR 4,743mn (EPS: PKR 3.55) as against PKR 3,177mn (EPS: PKR 2.38) in the corresponding period last year, up by +49% YoY,
- ✓ Net sales of the company may increase by 2% YoY to clock in at PKR 27,476mn as against PKR 26,990 in the same period last year. This surge in net sales is mainly attributable to highest every urea off-takes in the month of Jun-20 which mitigated the partial impact of lower urea prices (post removal of GIDC),
- ✓ Gross margins are foreseen to increase during 2QCY20 (GP Margins, 2QCY20: 40% compared to 2QCY19: 31.55%), thus leading to increase in earnings. This increase is mainly backed by higher net sales and lower COGS due to removal of GIDC.

Earnings to clock in at PKR 3.55/share during 2QCY20, DPS PKR 3.25

Engro Fertilizer Company Limited (EFERT) is all slated to announce its financial result on 29th-Jul-2020 for the quarter ended Jun'20, wherein, we expect EFERT to announce NPAT of PKR 4,743mn (EPS: PKR 3.55) as against PKR 3,177mn (EPS: PKR 2.38) in the corresponding period last year, up by +49% YoY. This takes total 1HCY20 earning to PKR 3.98/share. This increase in urea off-takes mainly backed by highest ever urea off-take by EFERT on quarterly basis wherein, EFERT managed to sell 511ktons. In conjunction with the result, we foresee EFERT to announce cash dividend of PKR 3.25/share.

Exhibit: Engro Fertiliser Limited (EFERT)

| PKRmn | 2QCY20e | 2QCY19 | YoY | 1HCY20e | 1HCY19 | YoY |
|-------------------------|---------------|--------------|------------|---------------|---------------|-------------|
| Net Sales | 27,476 | 26,990 | 2% | 38,268 | 50,643 | -24% |
| Cost of Sales | 16,463 | 18,475 | -11% | 23,619 | 34,528 | -32% |
| Gross Margins | 11,013 | 8,515 | 29% | 14,649 | 16,115 | -9% |
| Gross Margins | 40% | 32% | | | 32% | |
| Selling & Dist. Costs | 2,600 | 1,745 | 49% | 3,656 | 3,381 | 8% |
| Admin. Costs | 420 | 309 | 36% | 778 | 591 | 32% |
| Other Op. Income | 387 | 1,427 | -73% | 648 | 2,438 | -73% |
| Other Op. Expense | 800 | 581 | 38% | 948 | 987 | -4% |
| EBIT | 7,580 | 7,307 | 4% | 9,915 | 13,594 | -27% |
| Finance Costs | 900 | 1,220 | -26% | 2,112 | 2,019 | 5% |
| Pre-Tax Profits | 6,680 | 6,087 | 10% | 7,803 | 11,575 | -33% |
| Taxation | 1,937 | 2,910 | -33% | 2,488 | 4,392 | -43% |
| Profit After Tax | 4,743 | 3,177 | 49% | 5,315 | 7,183 | -26% |
| EPS | 3.55 | 2.38 | | 3.98 | 5.38 | |
| DPS | 3.25 | 5.00 | | 3.25 | 5.00 | |

Source: IGI Research, Company Financials

Higher urea offtake and improved margins to drive earnings growth during 2QCY20

Net sales of the company may increase by 2% YoY to clock in at PKR 27,476mn as against PKR 26,990 in the same period last year. This surge in net sales is mainly attributable to highest every urea off-takes in the month of Jun-20 which mitigated the partial impact of lower urea prices (post removal of GIDC). Gross margins are foreseen to increase during 2QCY20 (GP Margins, 2QCY20: 40% compared to 2QCY19: 31.55%), thus leading to increase in earnings. This increase is mainly backed by higher net sales and lower COGS due to removal of GIDC.

Meanwhile, S&D expense is expected to increase by 49% YoY mainly due to higher off-takes. In addition, other income of the company may decline by 73% YoY mainly due to massive reduction in interest rates and absence of any one-off. However, the positive impact of massive reduction in interest rates will be visible on its finance cost which plummeted by 26% YoY to clock in at PKR 900mn.

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