

# Flash Note

Friday, 18 October 2019

## Fertilizer

### Engro Fertilizers Limited (EFERT)

#### Higher taxation and finance cost pulls earnings down by 35%YoY to PKR 2.49/share for 3QCY19; Dividend at PKR 6.00/share

- Engro Fertilizers Limited (EFERT) announced its financial results for 3QCY19 with earnings clocking in at PKR 3.3bn (EPS: 2.49) as compared to PKR 5.1bn (EPS: PKR 3.82) in the same period last year. Accordingly, 9MCY19 earnings declined by 14%YoY to PKR 10.5bn (EPS: PKR 7.88) compared to last year.
- The company announced a cash dividend of PKR 6.00/share for 3QCY19, taking total dividend to PKR 11.00/share during 9MCY19.
- Net sales for the quarter decreased by 4%YoY to PKR 27.1bn likely owing to drop in total offtake despite increase in fertilizer prices.
- Gross margins weakened by 250bpsYoY to 32.6% owing to increase in gas prices and lagged price passover.
- Other income increased massively by +5.7xYoY to PKR 1.2bn possibly owing to sale of Engro Eximp (FZE) and gain/income on short term investments.
- Finance cost increased by +2.3xYoY to PKR 1.2bn owing to increase in borrowings and interest rates.
- Major erosion to earnings came from tax reversal following a change in tax rate (fixation of corporate tax rate at 29%) resulting in effective tax rate of 44% during 3QCY19 compared to 25% in the same period last year.

Exhibit:

#### EFERT: 3QCY19 Result Highlights

Period End Dec- PKRmn	3QCY19	3QCY18	YoY	9MCY19	9MCY18	YoY
Net Sales	27,106	28,099	-4%	77,749	69,215	12%
Gross Profit	8,840	9,875	-10%	24,955	23,896	4%
Selling / Dist.	2,069	1,975	5%	5,450	5,246	4%
Other Op. Income	1,214	214	5.7x	3,653	1,868	96%
EBIT	7,186	7,362	-2%	20,781	18,680	11%
Finance Cost	1,210	534	2.3x	3,229	1,420	2.3x
Pre-Tax Profits	5,976	6,829	-12%	17,552	17,260	2%
Taxation	2,650	1,729	53%	7,042	5,011	41%
Post-Tax Profits	3,326	5,100	-35%	10,511	12,249	-14%
EPS	2.49	3.82		7.88	9.18	
DPS	6.00	4.00		11.00	8.00	
<b>Key Ratios</b>						
Gross Profit Margins	32.6%	35.1%		32.1%	34.5%	
Ebit Margins	26.5%	26.2%		26.7%	27.0%	
Effective Tax Rate	44.3%	25.3%		40.1%	29.0%	

Source: IGI Research, Company Financials, PSX

No. of shares: 1334mn

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