

Day Break

Wednesday, 29 July 2020

Company Update

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

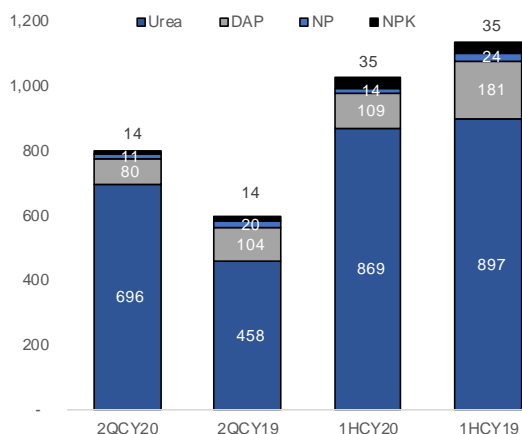


Exhibit: EFERT production for 2QCY20 (000'tons)

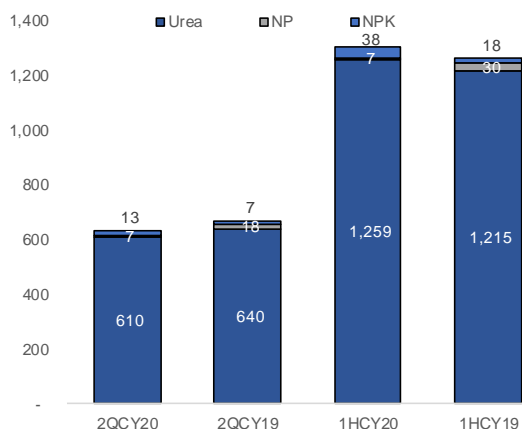
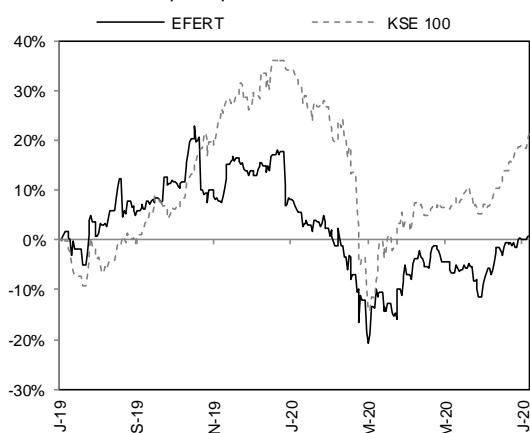


Exhibit: Relative price performance to KSE-100



Analyst

Shumail Rauf

shumail.rauf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

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.

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	Islamabad Office Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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