

# Flash Note

Wednesday, 21 October 2020

## Fertilisers

### Engro Fertilizer Limited (EFERT)

#### Higher urea offtake and low tax rate lifts 3QCY20 EPS to PKR 5.27; Dividend at PKR 5.00/share

- Engro Fertilizers Limited (EFERT) announced its financial result for 3QCY20, reporting an NPAT of PKR 7,034mn (EPS: PKR 5.27) as compared to the earnings of PKR 3,226mn (EPS: PKR 2.49), up by +1.11x y/y, in the same period last year. This takes total 9MCY20 earnings to PKR 11,491mn, up by 9% y/y. Major deviation to our estimates came from lower tax rate which plunged 2% as compared to 44% in the same period last year
- In conjunction with the result EFERT announced interim cash dividend of PKR 5.00/share. This take 9MCY20 DPS to PKR 9.00/share.
- Net sales of the company increased by +38% y/y to PKR 37,435mn owing to 35/95% increase in urea and DAP off-takes.
- Cost of goods sold jumped +46% y/y to PKR 26,592mn, translating into gross margins of 29% against 33% in the corresponding period last year. This decline in gross margins is mainly attributable to lower urea prices.
- Meanwhile, other operating income decreased by 59% y/y to PKR 501mn. Moreover, finance cost plummeted by 46% y/y, largely due to series of rate cuts in benchmark interest rates in the previous quarter which is being reflected in the current quarter.
- Major respite to earnings came from lower tax rate which stood at 2% as compared to 44% (during 31CY19 tax reversal following a change in tax rate; fixation of corporate tax rate at 29% resulting in higher tax rate of 44%) in same period last year bringing total effective tax rate for 1HCY20 to 19% against 40% reported in the similar period last year.

#### Exhibit: Engro Fertiliser Limited (EFERT)

Period end (Dec) - PKRmn	3QCY20	3QCY19	Y/Y	2QCY20	Q/Q	9MCY20	9MCY19	Y/Y
Net Sales	37,435	27,106	38%	29,911	25%	78,138	77,749	1%
Cost of Sales	26,592	18,267	46%	19,522	36%	53,900	52,795	2%
<b>Gross Profit s</b>	<b>10,843</b>	<b>8,840</b>	<b>23%</b>	<b>10,390</b>	<b>4%</b>	<b>24,238</b>	<b>24,955</b>	<b>-3%</b>
Gross Margins	29%	33%		35%		31%	32%	
Selling & Dist. Costs	2,563	2,069	24%	2,371	8%	5,990	5,450	10%
Admin. Costs	515	296	74%	361.797	42%	1234.81	887.347	39%
Other Op. Income	501	1,214	-59%	243.504	106%	1005.87	3,653	-72%
Other Op. Expense	408	503	-19%	1222.367	-67%	1,149	1489.298	-23%
EBIT	7,858	7,186	9%	6,678	18%	16,870	20,781	-19%
Finance Costs	655	1,210	-46%	896	-27%	2,763	3,229	-14%
<b>Pre-Tax Profits</b>	<b>7,203</b>	<b>5,976</b>	<b>21%</b>	<b>5,782</b>	<b>25%</b>	<b>14,107</b>	<b>17,552</b>	<b>-20%</b>
Taxation	169	2,650	-94%	1,896	-91%	2,616	7,042	-63%
Effective Tax Rate	2%	44%		33%		19%	40%	
<b>Profit After Tax</b>	<b>7,034</b>	<b>3,326</b>	<b>111%</b>	<b>3,886</b>	<b>81%</b>	<b>11,491</b>	<b>10,511</b>	<b>9%</b>
EPS	5.27	2.49		2.91		8.61	7.87	
DPS	5	6		4		9	11	

Source: IGI Research, PSX

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