

# Flash Note

Thursday, 30 July 2020

## Fertilisers

### Engro Fertilizer Limited (EFERT)

#### Higher urea offtake lifts 2QCY20 EPS to PKR 2.91 whereas higher other expense restricted earnings growth

- ✓ EFERT: Engro Fertilizers Limited (EFERT) announced its financial result for 2QCY20, reporting an NPAT of PKR 3,886mn (EPS: PKR 2.91) as compared to the earnings of PKR 3,177mn (EPS: PKR 2.38), up by +22% YoY, in the same period last year. Major deviation to our estimates came from lower other income which plunged by 83% YoY and higher operating expense which grew by 1.10x. On a cumulative basis for 1HCY20, this brings total earnings to PKR 4,457mn (EPS: PKR 3.34) compared to the profit of PKR 7,184mn (EPS: PKR 5.38) in the corresponding period last year.
- ✓ In conjunction with the result EFERT announced interim cash dividend of PKR 4/share.
- ✓ Net sales of the company increased by +11% YoY to PKR 29,911mn owing to highest every urea off-takes in the month of Jun-2020 which mitigated the partial impact of lower urea prices (post removal of GIDC).
- ✓ Cost of goods sold jumped +6% YoY to PKR 19,521mn, translating into gross margins of 35% against 32% in the corresponding period last year.
- ✓ Meanwhile, other operating expense increased by +1.10xYoY to PKR 1,222mn. Moreover, other income dropped by a massive 83% YoY to PKR 244mn mainly due to absence of one-off (reversal of WWF liability) and reduction in interest rates.
- ✓ Effective tax rate stood at 33% during 2QCY20 compared to 48% (1QCY20: 49%) in the same period last year bringing total effective tax rate for 1HCY20 to 35% against 38% reported in the similar period last year.

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

Period end (Dec) - PKRmn	2QCY20	2QCY19	YoY	1QCY20	QoQ	1HCY20	1HCY19	YoY
Net Sales	29,911	26,990	11%	10,792	177%	40,703	50,643	-20%
Cost of Sales	19,522	18,475	6%	7,156	173%	26,678	34,528	-23%
<b>Gross Margins</b>	<b>10,390</b>	<b>8,515</b>	<b>22%</b>	<b>3,636</b>	<b>186%</b>	<b>14,026</b>	<b>16,115</b>	<b>-13%</b>
Gross Margins	35%	32%		34%			32%	
Selling & Dist. Costs	2,371	1,745	36%	1,056	125%	3,427	3,381	1%
Admin. Costs	362	309	17%	358	1%	720	591	22%
Other Op. Income	244	1,427	-83%	261	-7%	505	2,438	-79%
Other Op. Expense	1,222	581	110%	148	726%	1,370	987	39%
EBIT	6,678	7,307	-9%	2,335	186%	9,013	13,594	-34%
Finance Costs	896	1,220	-27%	1,212	-26%	2,108	2,019	4%
<b>Pre-Tax Profits</b>	<b>5,782</b>	<b>6,087</b>	<b>-5%</b>	<b>1,123</b>	<b>415%</b>	<b>6,905</b>	<b>11,575</b>	<b>-40%</b>
Taxation	1,896	2,910	-35%	551	244%	2,447	4,392	-44%
Effective Tax Rate	33%	48%		49%		35%	38%	
<b>Profit After Tax</b>	<b>3,886</b>	<b>3,177</b>	<b>22%</b>	<b>572</b>	<b>579%</b>	<b>4,458</b>	<b>7,183</b>	<b>-38%</b>
EPS	2.91	2.38		0.43		3.34	5.38	
DPS	4.00	5.00		-		4.00	5.00	

Source: IGI Research, PSX

#### Analyst

Shumail Rauf

[shumail.rauf@igi.com.pk](mailto:shumail.rauf@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 957