

EFERT

1HCY22 Result Review: BUY Stance Maintained

Equity Research | Fertilizer | Thursday, 28 July, 2022



EFERT has announced its 1HCY22 result where it posted a profit after tax of Rs5.41bn (EPS: Rs4.05) as compared to a profit after tax of Rs10.50bn (EPS: Rs7.87) in the same period last year, down by 48.5% YoY. The decline in the earnings is mainly attributed to the increase in other expenses and higher effective taxation owing to the imposition of super tax.

The company had posted a revenue of Rs75.13bn against Rs55.35bn in SPLY, recording a growth of 35.7% YoY. We assume that growth is attributed to an increase in retention prices.

The gross margin has been decreased to 30% as compared to 38.7% in SPLY due to an increase in fuel cost. SG&A expenses have increased by 8.5% YoY to Rs5.17bn as compared to Rs4.77bn during SPLY.

Other income has been increased by 13.2% YoY to Rs1.09bn as compared to Rs971mn during SPLY. Lastly an increase in finance cost by 26% YoY plunge the bottom line.

EFERT is currently trading at a CY22E P/E of 10.25x. Furthermore, the scrip is also trading at CY22E P/B of 2.25x which offers a discount of 4% relative to its historical 3-year average of 2.35. We have a **BUY** stance on the scrip with a DCF based Jun-23 TP of Rs95 which provides a return of 19%. Further, it also provides a dividend yield of 9.35% which makes the total return of 28.35%.

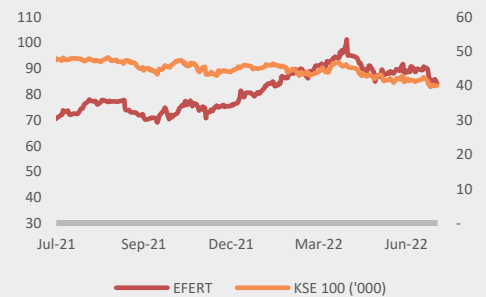
Rupees' millions	2QCY22	2QCY21	YoY	1HCY22	1HCY21	YoY
Net Sales	38,323	25,916	47.9% ▲	75,136	55,359	35.7% ▲
Cost of Sales	-26,632	-16,065	65.8% ▲	-52,585	-33,951	54.9% ▲
Gross Profit	11,691	9,851	18.7% ▲	22,552	21,408	5.3% ▲
SG&A Expenses	-2,709	-2,531	7.0% ▲	-5,173	-4,770	8.5% ▲
Other Expenses	-1,838	-608	202.5% ▲	-2,598	-1,476	76.0% ▲
Operating Profit	7,144	6,712	6.4% ▲	14,780	15,162	2.5% ▼
Other Income	588	492	19.6% ▲	1,099	971	13.2% ▲
Finance Cost	-583	-570	2.2% ▲	-1,057	-840	26.0% ▲
Profit Before Taxation	7,149	6,633	7.8% ▲	14,822	15,293	3.1% ▼
Taxation	-7,247	-1,866	288.5% ▲	-9,409	-4,784	96.7% ▲
Profit After Taxation	-98	4,767	102.1% ▼	5,413	10,509	48.5% ▼
Earnings Per Share	-0.07	3.57	102.1% ▼	4.05	7.87	48.5% ▼
Dividend	0.00	4.00	100.0% ▼	5.50	8.00	31.3% ▼
Bonus	-	-	-	-	-	-
Gross Margin	30.5%	38.0%	7.5% ▼	30.0%	38.7%	8.7% ▼
SG&A Expenses to Sales	-7.1%	-9.8%	2.7% ▼	-6.9%	-8.6%	1.7% ▼
Other Income to Sales	1.5%	1.9%	0.4% ▼	1.5%	1.8%	0.3% ▼
Ex. Gain / (Loss) to Sales	-7.1%	-9.8%	2.7% ▼	-6.9%	-8.6%	1.7% ▼
Effective Taxation	-101.4%	-28.1%	73.3% ▲	-63.5%	-31.3%	32.2% ▲
Net Margin	-0.3%	18.4%	18.7% ▼	7.2%	19.0%	11.8% ▼

Source: ACPL Research, Company Financials

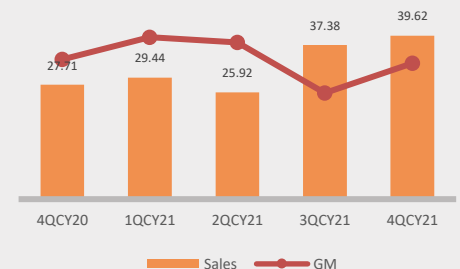
Key Statistics

Symbol	EFERT
TP - Jun 23	95.00
LDGP	80.25
Upside (%)	19
Free Float ('mn)	600
Market Cap. (Rs.'mn)	107,157

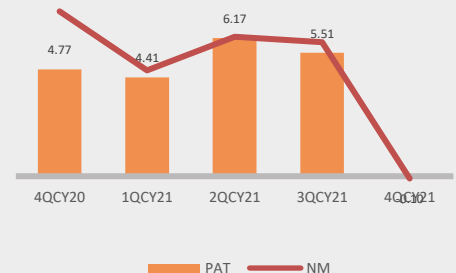
EFERT vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Salman

Phone: (+92) 42 38302028; Ext: 116
Email: salman@abbasiandcompany.com

Financial Projections

Rupees' millions	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Net sales	121,355	105,846	132,363	150,303	146,722	145,009	142,302
Cost of sale	81,815	71,592	88,289	105,544	102,268	100,976	99,008
Gross profit	39,540	34,255	44,074	44,760	44,455	44,033	43,294
Selling and promotion expenses	8,736	8,457	8,530	7,590	7,409	7,323	7,186
Administration expenses	1,248	1,908	1,900	2,766	2,700	2,668	2,618
Other operating expenses	2,623	1,905	3,942	5,200	5,077	5,017	4,924
Operating Profit	26,933	21,985	29,702	29,203	29,269	29,024	28,565
Other operating income	4,352	2,550	1,790	2,194	2,142	2,117	2,078
Finance cost	3,887	3,236	1,602	2,776	1,904	1,137	778
Profit before taxation	27,398	21,298	29,890	28,622	29,507	30,005	29,865
Taxation	10,526	3,165	8,798	18,169	9,737	9,902	9,855
Profit after taxation	16,871	18,133	21,093	10,453	19,770	20,103	20,010
EPS	12.63	13.58	15.80	7.83	14.81	15.06	14.99

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY19A	CY20A	CY21A	CY22E	CY23E	CY23E	CY23E
Net sales	11.1%	-12.8%	25.1%	13.6%	-2.4%	-1.2%	-1.9%
Cost of sale	10.7%	-12.5%	23.3%	19.5%	-3.1%	-1.3%	-1.9%
Gross profit	12.0%	-13.4%	28.7%	1.6%	-0.7%	-0.9%	-1.7%
Selling and promotion expenses	9.1%	-3.2%	0.9%	-11.0%	-2.4%	-1.2%	-1.9%
Administration expenses	-21.3%	52.8%	-0.4%	45.5%	-2.4%	-1.2%	-1.9%
Other operating expenses	83.2%	-27.4%	106.9%	31.9%	-2.4%	-1.2%	-1.9%
Operating Profit	10.9%	-18.4%	35.1%	-1.7%	0.2%	-0.8%	-1.6%
Other operating income	111.1%	-41.4%	-29.8%	22.6%	-2.4%	-1.2%	-1.9%
Finance cost	87.7%	-16.7%	-50.5%	73.3%	-31.4%	-40.3%	-31.6%
Profit before taxation	12.8%	22.3%	-40.3%	-4.2%	3.1%	1.7%	-0.5%
Taxation	53.3%	-69.9%	-178.0%	106.5%	-46.4%	1.7%	-0.5%
Profit after taxation	-3.1%	7.5%	-16.3%	-50.4%	89.1%	1.7%	-0.5%
EPS	-3.1%	7.5%	-16.3%	-50.4%	89.1%	1.7%	-0.5%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
GP Margin	%	32.58	32.36	33.30	29.78	30.30	30.37	30.42
OP Margin	%	25.78	23.18	23.79	20.89	21.41	21.48	21.53
NP Margin	%	13.90	17.13	15.94	6.95	13.47	13.86	14.06
ROE	%	38.00	40.29	44.97	22.10	41.13	41.05	40.02
ROCE	%	25.56	18.96	23.81	21.95	20.71	20.92	20.92
ROA	%	13.79	14.02	15.95	7.31	13.04	13.50	13.66

Liquidity Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Current	x	1.14	1.24	0.99	1.44	1.52	1.59	1.58
Acid-test	x	0.42	0.18	0.12	0.38	0.40	0.42	0.41
Cash to current liab.	x	0.07	0.07	0.02	0.03	0.03	0.03	0.03

Activity Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Inventory Turnover	x	3	4	4	4	3	3	3
Inventory Days		56	50	55	55	55	55	55
Receivables Days		43	30	40	40	40	40	40
Payables Days		168	170	150	150	150	150	150
Operating Cycle		-70	-90	-55	-55	-55	-55	-55

Investment Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
EPS	Rs.	12.63	13.58	15.80	7.83	14.81	15.06	14.99
DPS	Rs.	13.00	13.00	16.50	7.50	14.00	14.50	14.00
Div. Yield	%	16.20	16.20	20.56	9.35	17.45	18.07	17.45
Dividend Cover	x	0.97	1.04	0.96	1.04	1.06	1.04	1.07
BVPS	Rs.	32.41	35.00	35.26	35.59	36.40	36.95	37.94
Payout	%	102.89	95.73	104.46	95.00	95.00	95.00	95.00
Retention	%	-2.89	4.27	-4.46	5.00	5.00	5.00	5.00
No. of Shares	'mn	1,335	1,335	1,335	1,335	1,335	1,335	1,335
P/E		6.35	5.91	5.08	10.25	5.42	5.33	5.36
Sales per share		90.88	79.27	99.13	112.56	109.88	108.60	106.57
P/BV		2.48	2.29	2.28	2.25	2.20	2.17	2.12
Price to Sales		0.88	1.01	0.81	0.71	0.73	0.74	0.75

Gearing Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Debt to Equity	x	0.76	0.51	0.45	0.37	0.20	0.11	0.11
L.T. Debt to Equity	x	0.72	0.50	0.37	0.28	0.11	0.01	0.01
Interest Cover	x	8.05	7.58	19.66	11.31	16.50	27.40	39.39

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com