

EFERT

1HCY21 Result Review: BUY Stance Maintained

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EFERT has announced its 1HCY21 result where it posted a profit after tax of Rs10.6bn (EPS: Rs7.90) as compared to a profit after tax of Rs4.46bn (EPS: Rs0.43) in the same period last year, up by 136.7% YoY.

The company had posted a revenue of Rs55bn against Rs40.7mn in SPLY, recording a growth of 36% YoY.

The gross margin has been improved to 38.7% as compared to 34.5% in SPLY due to an increase in demand. SG&A expenses have increased by 15% YoY to Rs4.8bn as compared to Rs4.1bn during SPLY.

Lastly, an increase in the other income by 101% YoY and a decrease in finance cost by 60.2% YoY supported the bottom line.

Going forward, we expect the offtake to increase further as a result of improved economic activity, and subsidies provided by the government. EFERT is currently trading at a CY21E P/E of 6.1x. Furthermore, the script is also trading at CY21E P/B of 2.05x which offers a discount of 9% relative to its historical 5-year average of 2.26. We have a **BUY** stance on the script with a DCF based Jun-22 TP of Rs75 which provides a total return of 17%, inclusive a dividend yield of 15%.

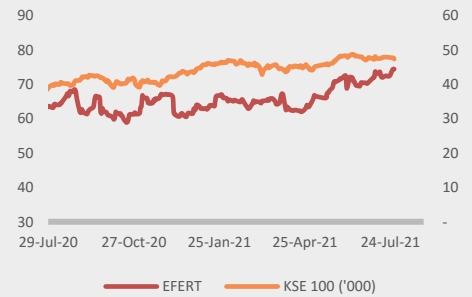
Rupees' millions	2QCY21	2QCY20	YoY	1HCY21	1HCY20	YoY
Net Sales	25,916	29,911	13.4% ▼	55,359	40,703	36.0% ▲
Cost of Sales	-16,065	-19,522	17.7% ▼	-33,951	-26,678	27.3% ▲
Gross Profit	9,851	10,390	5.2% ▼	21,408	14,025	52.6% ▲
SG&A Expenses	-2,531	-2,733	7.4% ▼	-4,770	-4,148	15.0% ▲
Other Expenses	-608	-1,222	50.3% ▼	-1,476	-1,371	7.7% ▲
Operating Profit	6,712	6,434	4.3% ▲	15,162	8,506	78.2% ▲
Other Income	534	244	119.1% ▲	1,013	505	100.6% ▲
Finance Cost	-570	-896	36.3% ▼	-840	-2,108	60.2% ▼
Profit Before Taxation	6,675	5,782	15.5% ▲	15,335	6,903	122.1% ▲
Taxation	-1,866	-1,896	1.6% ▼	-4,784	-2,447	95.5% ▲
Profit After Taxation	4,810	3,886	23.8% ▲	10,551	4,457	136.7% ▲
Earnings Per Share	3.60	2.91	23.8% ▲	7.90	3.34	136.7% ▲
Dividend	4.00	4.00	-	8.00	4.00	100.0% ▲
Bonus	-	-	-	-	-	-
Gross Margin	38.0%	34.7%	3.3% ▲	38.7%	34.5%	4.2% ▲
SG&A Expenses to Sales	-9.8%	-9.1%	0.6% ▲	-8.6%	-10.2%	1.6% ▼
Other Income to Sales	2.1%	0.8%	1.2% ▲	1.8%	1.2%	0.6% ▲
Ex. Gain / (Loss) to Sales	-9.8%	-9.1%	0.6% ▲	-8.6%	-10.2%	1.6% ▼
Effective Taxation	-27.9%	-32.8%	4.8% ▼	-31.2%	-35.4%	4.2% ▼
Net Margin	18.6%	13.0%	5.6% ▲	19.1%	10.9%	8.1% ▲

Source: ACPL Research, Company Financials

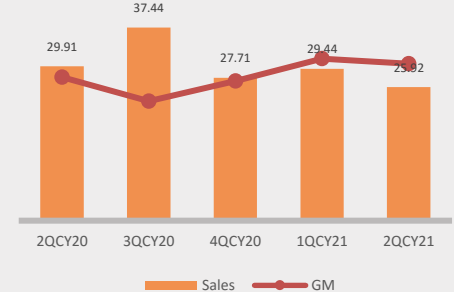
Key Statistics

Symbol	EFERT
TP - Jun 22	75.00
LDCP	74.00
Upside (%)	2
Free Float ('mn)	601
Market Cap. (Rs. 'mn)	100,455

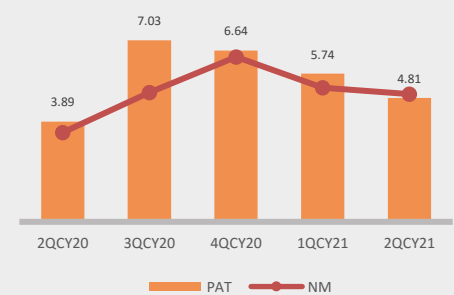
EFERT vs KSE 100



Sales (Rs'mn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Net sales	69,537	77,129	109,197	121,355	105,846	107,766	108,700	110,486
Cost of sale	52,098	53,911	73,880	81,815	71,592	73,410	77,494	79,637
Gross profit	17,439	23,219	35,316	39,540	34,255	34,356	31,206	30,849
Selling and promotion expenses	6,705	7,245	8,008	8,736	8,457	7,758	7,825	7,954
Administration expenses	907	1,294	1,585	1,248	1,908	1,108	1,118	1,136
Other operating expenses	1,149	1,234	1,432	2,623	1,905	2,329	2,349	2,388
Operating Profit	8,677	13,447	24,291	26,933	21,985	23,160	19,914	19,371
Other operating income	8,143	5,866	2,062	4,352	2,550	1,890	1,906	1,937
Finance cost	3,187	2,648	2,071	3,887	3,236	2,014	1,206	733
Profit before taxation	13,634	16,665	24,282	27,398	21,298	23,036	20,614	20,576
Taxation	4,351	5,509	6,869	10,526	3,165	6,681	5,978	5,967
Profit after taxation	9,283	11,156	17,414	16,871	18,133	16,356	14,636	14,609
EPS	6.95	8.35	13.04	12.63	13.58	12.25	10.96	10.94

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Net sales	-21.0%	10.9%	41.6%	11.1%	-12.8%	1.8%	0.9%	1.6%
Cost of sale	-6.5%	3.5%	37.0%	10.7%	-12.5%	2.5%	5.6%	2.8%
Gross profit	-46.0%	33.1%	52.1%	12.0%	-13.4%	0.3%	-9.2%	-1.1%
Selling and promotion expenses	22.7%	8.1%	10.5%	9.1%	-3.2%	-8.3%	0.9%	1.6%
Administration expenses	1.3%	42.6%	22.6%	-21.3%	52.8%	-41.9%	0.9%	1.6%
Other operating expenses	-43.5%	7.3%	16.1%	83.2%	-27.4%	22.3%	0.9%	1.6%
Operating Profit	-63.7%	55.0%	80.6%	10.9%	-18.4%	5.3%	-14.0%	-2.7%
Other operating income	357.2%	-28.0%	-64.8%	111.1%	-41.4%	-25.9%	0.9%	1.6%
Finance cost	-31.1%	-16.9%	-21.8%	87.7%	-16.7%	-37.8%	-40.1%	-39.2%
Profit before taxation	-35.3%	22.2%	45.7%	12.8%	22.3%	-8.2%	-10.5%	-0.2%
Taxation	-30.4%	26.6%	24.7%	53.3%	-69.9%	-111.1%	-10.5%	-0.2%
Profit after taxation	-37.4%	20.2%	56.1%	-3.1%	7.5%	9.8%	-10.5%	-0.2%
EPS	-37.4%	20.2%	56.1%	-3.1%	7.5%	9.8%	-10.5%	-0.2%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
GP Margin	%	25.08	30.10	32.34	32.58	32.36	31.88	28.71	27.92
OP Margin	%	24.19	25.04	24.13	25.78	23.18	23.24	20.07	19.29
NP Margin	%	13.35	14.46	15.95	13.90	17.13	15.18	13.46	13.22
ROE	%	22.11	26.52	39.58	38.00	40.29	34.39	29.80	28.87
ROCE	%	16.10	18.00	22.96	25.56	18.96	18.70	16.07	15.78
ROA	%	8.89	10.40	15.17	13.79	14.02	12.21	10.78	10.82

Liquidity Ratios		CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Current	x	1.17	1.04	1.15	1.14	1.24	1.63	1.64	1.71
Acid-test	x	0.35	0.23	0.29	0.42	0.18	0.34	0.34	0.36
Cash to current liab.	x	0.00	0.05	0.02	0.07	0.07	0.09	0.09	0.09

Activity Ratios		CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Inventory Turnover	x	4	4	4	3	4	4	4	4
Inventory Days		48	52	57	56	50	50	50	50
Receivables Days		40	26	30	43	30	30	30	30
Payables Days		105	149	144	168	170	170	170	170
Operating Cycle		-17	-71	-56	-70	-90	-90	-90	-90

Investment Ratios		CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
EPS	Rs.	6.95	8.35	13.04	12.63	13.58	12.25	10.96	10.94
DPS	Rs.	7.00	8.50	11.00	13.00	13.00	11.01	9.85	9.84
Div. Yield	%	9.41	11.43	14.79	17.48	17.48	14.81	13.25	13.23
Dividend Cover	x	0.99	0.98	1.19	0.97	1.04	1.11	1.11	1.11
BVPS	Rs.	31.19	31.81	34.09	32.41	35.00	36.23	37.34	38.44
Payout	%	100.69	101.74	84.35	102.89	95.73	89.91	89.91	89.91
Retention	%	-0.69	-1.74	15.65	-2.89	4.27	10.09	10.09	10.09
No. of Shares	'mn	1,335	1,335	1,335	1,335	1,335	1,335	1,335	1,335
P/E		10.70	8.90	5.70	5.89	5.48	6.07	6.79	6.80
Sales per share		52.08	57.76	81.78	90.88	79.27	80.71	81.40	82.74
P/BV		2.38	2.34	2.18	2.29	2.13	2.05	1.99	1.93
Price to Sales		1.43	1.29	0.91	0.82	0.94	0.92	0.91	0.90

Gearing Ratios		CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Debt to Equity	x	0.88	0.85	0.70	0.76	0.51	0.41	0.26	0.11
L.T. Debt to Equity	x	0.83	0.73	0.68	0.72	0.50	0.40	0.25	0.10
Interest Cover	x	5.28	7.29	12.73	8.05	7.58	12.44	18.10	29.09

Source: ACPL Research, Company Financials

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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

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

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Market Weight	Neutral
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