

EFERT

1QCY23 Result Review: BUY Stance Maintained

Equity Research | Fertilizer | Monday, 17 April, 2023

EFERT has announced its 1QCY23 result where it posted a profit after tax of Rs4.40bn (EPS: Rs3.30) as compared to a profit after tax of Rs5.51bn (EPS: Rs4.13) in the same period last year, down by 20.1% YoY amid a drop in urea offtake.

The company had posted a revenue of Rs43.99bn against Rs36.81bn in SPLY, recording a growth of 19.5% YoY amid higher retention prices of urea and DAP.

The gross margin has decreased to 24.5% as compared to 29.5% in SPLY due to an increase in fuel cost. SG&A expenses have increased by 22.6% YoY to Rs3.02bn as compared to Rs2.46bn during SPLY.

Moreover, other income has increased by 40.2% YoY to Rs0.72bn as compared to Rs0.51bn during SPLY. Lastly, finance costs have dropped by 8.3% amid a decline in borrowings.

EFERT is currently trading at a CY23E P/E of 6.75x. Furthermore, the scrip is also trading at CY23E P/B of 2.70x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs95 which provides a return of 10%. Further, it also provides a dividend yield of 17% which makes the total return of 27%.

| Rupees' millions | 1QCY23 | 1QCY22 | YoY | CY22 | CY21 | YoY |
|------------------------|---------|---------|---------|----------|---------|---------|
| Net Sales | 43,991 | 36,813 | 19.5% ▲ | 157,017 | 132,363 | 18.6% ▲ |
| Cost of Sales | -33,216 | -25,952 | 28.0% ▲ | -114,170 | -88,289 | 29.3% ▲ |
| Gross Profit | 10,775 | 10,861 | 0.8% ▼ | 42,847 | 44,074 | 2.8% ▼ |
| SG&A Expenses | -3,022 | -2,464 | 22.6% ▲ | -12,103 | -10,430 | 16.0% ▲ |
| Other Expenses | -1,244 | -760 | 63.6% ▲ | -3,886 | -3,942 | 1.4% ▼ |
| Operating Profit | 6,508 | 7,636 | 14.8% ▼ | 26,858 | 29,702 | 9.6% ▼ |
| Other Income | 717 | 511 | 40.2% ▲ | 2,325 | 1,790 | 29.9% ▲ |
| Finance Cost | -435 | -475 | 8.3% ▼ | -2,622 | -1,602 | 63.6% ▲ |
| Profit Before Taxation | 6,790 | 7,673 | 11.5% ▼ | 26,562 | 29,890 | 11.1% ▼ |
| Taxation | -2,386 | -2,162 | 10.4% ▲ | -10,558 | -8,798 | 20.0% ▲ |
| Profit After Taxation | 4,404 | 5,511 | 20.1% ▼ | 16,003 | 21,093 | 24.1% ▼ |
| Earnings Per Share | 3.30 | 4.13 | 20.1% ▼ | 11.98 | 15.80 | 24.1% ▼ |
| Dividend | 3.50 | 5.50 | 36.4% ▼ | 13.50 | 16.50 | 18.2% ▼ |
| Bonus | - | - | - | - | - | - |

Closing Period: Apr 28, 2023 - Apr 30, 2023

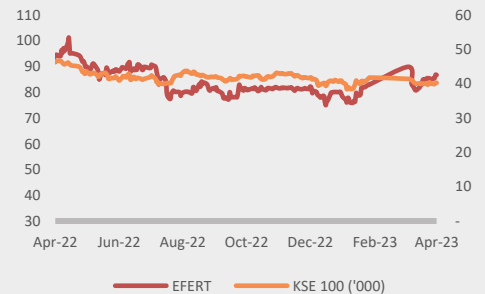
| | 1QCY23 | 1QCY22 | YoY | CY22 | CY21 | YoY |
|----------------------------|--------|--------|--------|--------|--------|---------|
| Gross Margin | 24.5% | 29.5% | 5.0% ▼ | 27.3% | 33.3% | 6.0% ▼ |
| SG&A Expenses to Sales | -6.9% | -6.7% | 0.2% ▲ | -7.7% | -7.9% | 0.2% ▼ |
| Other Income to Sales | 1.6% | 1.4% | 0.2% ▲ | 1.5% | 1.4% | 0.1% ▲ |
| Ex. Gain / (Loss) to Sales | -6.9% | -6.7% | 0.2% ▲ | -7.7% | -7.9% | 0.2% ▼ |
| Effective Taxation | -35.1% | -28.2% | 7.0% ▲ | -39.8% | -29.4% | 10.3% ▲ |
| Net Margin | 10.0% | 15.0% | 5.0% ▼ | 10.2% | 15.9% | 5.7% ▼ |

Source: ACPL Research, Company Financials

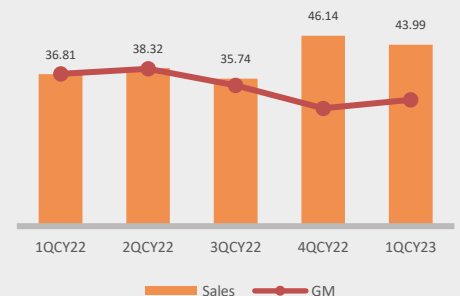
Key Statistics

| Symbol | EFERT |
|-----------------------|---------|
| TP - Dec 23 | 95 |
| LDCP | 86.65 |
| Upside (%) | 10 |
| Free Float ('mn) | 601 |
| Market Cap. (Rs. 'mn) | 115,704 |

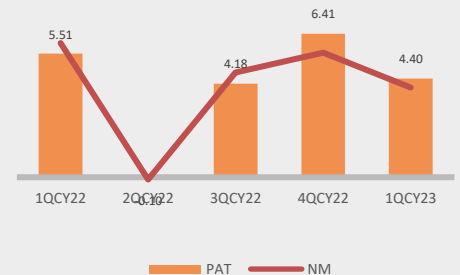
EFERT vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

| Rupees' millions | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 105,846 | 132,363 | 157,017 | 175,965 | 181,342 | 189,934 | 198,552 |
| Cost of sale | 71,592 | 88,289 | 114,170 | 132,862 | 137,616 | 145,085 | 152,135 |
| Gross profit | 34,255 | 44,074 | 42,847 | 43,103 | 43,726 | 44,849 | 46,417 |
| Selling and promotion expenses | 8,457 | 8,530 | 9,886 | 10,558 | 11,418 | 11,958 | 12,501 |
| Administration expenses | 1,908 | 1,900 | 2,217 | 2,219 | 2,560 | 2,681 | 2,803 |
| Other operating expenses | 1,905 | 3,942 | 3,886 | 4,977 | 5,006 | 5,243 | 5,481 |
| Operating Profit | 21,985 | 29,702 | 26,858 | 25,349 | 24,743 | 24,966 | 25,632 |
| Other operating income | 2,550 | 1,790 | 2,325 | 2,868 | 2,698 | 2,826 | 2,954 |
| Finance cost | 3,236 | 1,602 | 2,622 | 1,789 | 945 | 414 | 582 |
| Profit before taxation | 21,298 | 29,890 | 26,562 | 26,428 | 26,495 | 27,378 | 28,004 |
| Taxation | 3,165 | 8,798 | 10,558 | 9,286 | 8,743 | 9,035 | 9,241 |
| Profit after taxation | 18,133 | 21,093 | 16,003 | 17,142 | 17,752 | 18,343 | 18,763 |
| EPS | 13.58 | 15.80 | 11.98 | 12.84 | 13.29 | 13.74 | 14.05 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|--------------------------------|---------------|---------------|---------------|--------------|--------------|-------------|-------------|
| Net sales | 20.2% | 25.1% | 18.6% | 12.1% | 3.1% | 4.7% | 4.5% |
| Cost of sale | 28.5% | 23.3% | 29.3% | 16.4% | 3.6% | 5.4% | 4.9% |
| Gross profit | 6.0% | 28.7% | -2.8% | 0.6% | 1.4% | 2.6% | 3.5% |
| Selling and promotion expenses | 54.7% | 0.9% | 15.9% | 6.8% | 8.1% | 4.7% | 4.5% |
| Administration expenses | 113.0% | -0.4% | 16.6% | 0.1% | 15.4% | 4.7% | 4.5% |
| Other operating expenses | -6.3% | 106.9% | -1.4% | 28.1% | 0.6% | 4.7% | 4.5% |
| Operating Profit | -8.1% | 35.1% | -9.6% | -5.6% | -2.4% | 0.9% | 2.7% |
| Other operating income | 43.1% | -29.8% | 29.9% | 23.3% | -5.9% | 4.7% | 4.5% |
| Finance cost | -30.1% | -50.5% | 63.6% | -31.8% | -47.2% | -56.2% | 40.7% |
| Profit before taxation | -1.1% | -40.3% | -11.1% | -0.5% | 0.3% | 3.3% | 2.3% |
| Taxation | 49.3% | -178.0% | 20.0% | -12.0% | -5.8% | 3.3% | 2.3% |
| Profit after taxation | -22.4% | -16.3% | -24.1% | 7.1% | 3.6% | 3.3% | 2.3% |
| EPS | -22.4% | -16.3% | -24.1% | 7.1% | 3.6% | 3.3% | 2.3% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| GP Margin | % | 32.36 | 33.30 | 27.29 | 24.50 | 24.11 | 23.61 | 23.38 |
| OP Margin | % | 23.18 | 23.79 | 18.59 | 16.04 | 15.13 | 14.63 | 14.40 |
| NP Margin | % | 17.13 | 15.94 | 10.19 | 9.74 | 9.79 | 9.66 | 9.45 |
| ROE | % | 40.29 | 44.97 | 34.74 | 39.01 | 42.58 | 46.58 | 50.85 |
| ROCE | % | 18.96 | 23.81 | 20.98 | 18.98 | 17.99 | 18.02 | 18.49 |
| ROA | % | 14.02 | 15.95 | 11.50 | 11.53 | 11.64 | 11.90 | 12.14 |

| Liquidity Ratios | | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current | x | 1.24 | 0.99 | 0.72 | 1.16 | 1.22 | 1.22 | 1.15 |
| Acid-test | x | 0.18 | 0.12 | 0.11 | 0.19 | 0.20 | 0.21 | 0.15 |
| Cash to current liab. | x | 0.07 | 0.02 | 0.03 | 0.05 | 0.05 | 0.05 | -0.01 |

| Activity Ratios | | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|--------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Inventory Turnover | x | 4 | 4 | 4 | 4 | 3 | 3 | 3 |
| Inventory Days | | 38 | 56 | 54 | 55 | 56 | 57 | 58 |
| Receivables Days | | 10 | 8 | 9 | 10 | 11 | 12 | 13 |
| Payables Days | | 154 | 108 | 144 | 150 | 150 | 150 | 150 |
| Operating Cycle | | -106 | -43 | -82 | -85 | -83 | -81 | -79 |

| Investment Ratios | | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|-------------------|-----|-------|--------|--------|--------|--------|--------|--------|
| EPS | Rs. | 13.58 | 15.80 | 11.98 | 12.84 | 13.29 | 13.74 | 14.05 |
| DPS | Rs. | 13.00 | 16.50 | 13.50 | 14.50 | 15.00 | 15.50 | 16.00 |
| Div. Yield | % | 15.00 | 19.04 | 15.58 | 16.73 | 17.31 | 17.89 | 18.47 |
| Dividend Cover | x | 1.04 | 0.96 | 0.89 | 0.89 | 0.89 | 0.89 | 0.88 |
| BVPS | Rs. | 35.00 | 35.26 | 33.74 | 32.08 | 30.37 | 28.61 | 26.66 |
| Payout | % | 95.73 | 104.46 | 112.64 | 112.64 | 112.64 | 112.64 | 112.64 |
| Retention | % | 4.27 | -4.46 | -12.64 | -12.64 | -12.64 | -12.64 | -12.64 |
| No. of Shares | 'mn | 1,335 | 1,335 | 1,335 | 1,335 | 1,335 | 1,335 | 1,335 |
| P/E | | 6.38 | 5.49 | 7.23 | 6.75 | 6.52 | 6.31 | 6.17 |
| Sales per share | | 79.27 | 99.13 | 117.59 | 131.78 | 135.81 | 142.24 | 148.69 |
| P/BV | | 2.48 | 2.46 | 2.57 | 2.70 | 2.85 | 3.03 | 3.25 |
| Price to Sales | | 1.09 | 0.87 | 0.74 | 0.66 | 0.64 | 0.61 | 0.58 |

| Gearing Ratios | | CY20A | CY21A | CY22A | CY23E | CY24E | CY25E | CY26E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity | x | 0.51 | 0.45 | 0.45 | 0.14 | 0.04 | 0.04 | 0.09 |
| L.T. Debt to Equity | x | 0.50 | 0.37 | 0.28 | 0.13 | 0.02 | 0.00 | 0.00 |
| Interest Cover | x | 7.58 | 19.66 | 11.13 | 15.77 | 29.03 | 67.19 | 49.13 |

Source: ACPL Research, Company Financials

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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

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| 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 |

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