



# **ANALYST BRIEFING**

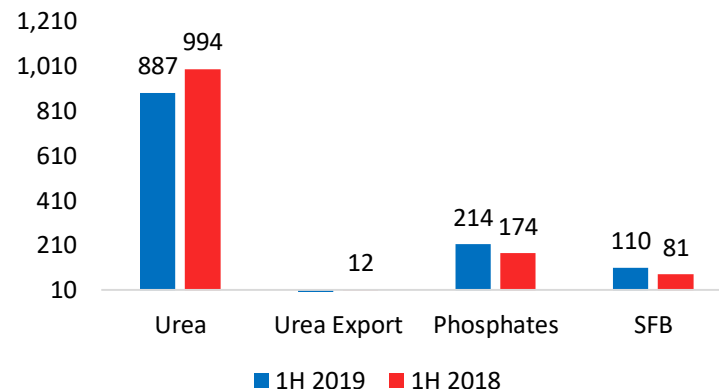
2Q 2019

# BUSINESS HIGHLIGHTS

- ▶ For 1H 2019, EFERT's Profit After Tax (PAT) stood at PKR 7,184 M vs 1H 2018 PAT of PKR 7,149 M
- ▶ Higher profitability was led by :
  - ▶ Higher realized prices and sale of DAP and SFB;
  - ▶ Reversal of WWF booked on higher of taxable and accounting income and
  - ▶ Gain on land sale to EPCL
- ▶ This was partially off set by deferred tax charge due to rate increase.
- ▶ Sales revenue for the Company stood at PKR 50,643 M for 1H 2019, up 23% as compared to 1H 2018 (PKR 41,116 M)
- ▶ Finance cost was higher at PKR 2,019 M (vs PKR 886 M last year) as a result of higher policy rates

PKR M	1H 2019	1H 2018
Total Revenue	50,643	41,116
Gross Profit	16,115	14,020
Finance Cost	(2,019)	(886)
<b>Profit / (Loss) After Tax</b>	<b>7,184</b>	<b>7,149</b>

Sales KT (1H 2019 vs 1H 2018) & Exports



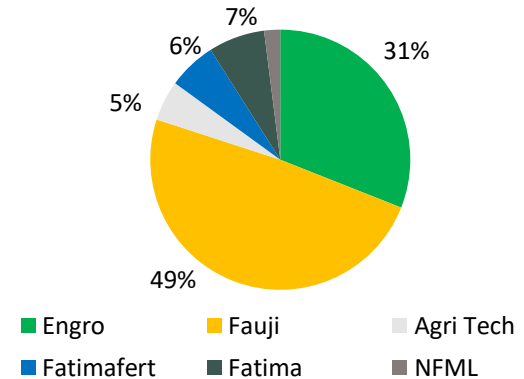
# UREA MARKET ENVIRONMENT



- ▶ Urea industry sales for 1H 2019 clocked in at 2,874 KT, up by 5% vs SPLY
- ▶ EFERT 1H 2019 sales were 887 KT, down 11% vs 994 KT SPLY , due to lower avails.
- ▶ EFERT market share stood at 31% vs. 36% in 1H 2018 primarily on account of operation of LNG based plants and sale of imported urea.
- ▶ Industry urea production for 1H 2019 stood at 2,902 KT VS 2,658 KT SPLY.
- ▶ LNG based plants added ~391 KT to the industry production due to allocation of subsidized LNG by the Government (Subsidy : PKR 1,250/bag / PKR 2B)
- ▶ Production during 1H for EFERT stood at 906 KT vs 931 KT for 1H 2018 owing to plant turnaround.
- ▶ On the international front, urea prices are currently at USD 302/T (Landed eqv. of PKR 2,800/bag) . Local urea prices are currently at PKR 1,840/bag

Urea Industry (KT)	Change		
	1H 2019	1H 2018	
Opening Inv.	186	260	
Production	2,902	2,658	
Imports	-	-	
Exports	-	75	
Sales	2,874	2,738	5%
Closing Inv.	187	95	

Market Share 1H 2019

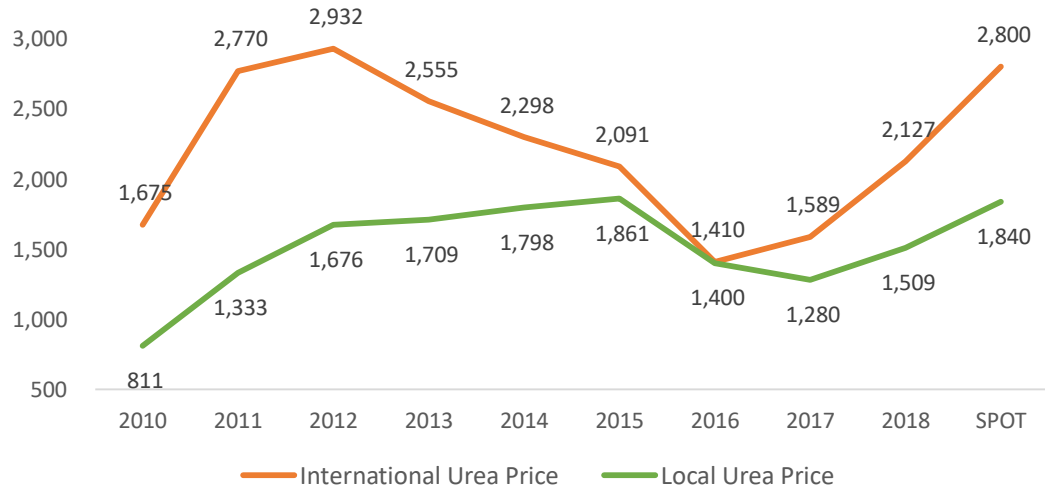


# COMPARISON OF LOCAL VS INT PRICE

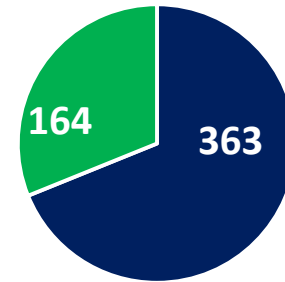


Despite significant delta vs. international Urea prices, the Fertilizer industry continues to transfer benefit to the farmer, which translates to PKR 20 Billion for the year, over and above the feed gas price subsidy

### Comparison of Local vs. International Urea Price (PKR/bag)



### Subsidy share since 2010



- Benefit passed on by Fertilizer industry
- GOP Subsidy

- Passed on 2x benefit vs. Government since 2010
- In 2015, price of Urea was around PKR 1,900/bag vs. current price of PKR 1,830/bag

# PRICE COMPARISON PRE AND POST SUBSIDY



MRP/bag	April 29, 2016	July 01, 2017	July 1, 2018	July 16, 2018	October 5, 2018	April 6, 2019	July 01, 2019	Total Impact
MRP before price change	1,790	1,400	1,400	1,560	1,610	1,740	1,830	1,790
Price (reduction) / increase	(50)	(56)	100					(6)
Cash (subsidy) / removal of cash subsidy by GoP	(156)	56	100	-				-
GST impact	(184)	-	(40)	-				(224)
Gas Price Increase					130		10	140
Inflation impact				50		90		140
MRP after price change	1,400	1,400	1,560	1,610	1,740	1,830	1,840	1,830
Inflation pass through				50		90		140
Inflation as per SBP (%)	3%	4%	4%		6%	3%	2%	
Inflation as per SBP (PKR/B)	52	65	62	0	35	58	45	316
Inflation absorbed by the industry	52	65	62	(50)	35	(32)	45	176
MRP With Total inflation impact	1,452	1,517	1,739	1,739	1,904	1,961	2,016	2,016

The industry has passed on the benefit of reduction in GST and change in subsidy to the farmers.

# GIDC AND GAS PRICE INCREASE IMPACT



OGRA increased gas prices by 62% for feed (PKR 300/mmBTU from PKR 185/mmBTU) and 31% for fuel (PKR 1,021/mmBTU from PKR 780/mmBTU) with effect from July 1, 2019.

Additionally, gas cost for EFERT continues to increase due to the impact of PKR devaluation on Concessionary and PP-2012 gas streams.

Impact of recent changes in gas cost, selling price and expected revision in GIDC is as follows:

	Based on Fertilizer Policy
Impact of increase in gas Price PKR/bag	(210)
Increase in Urea Price PKR/bag	10
Impact of 50% reduction in GIDC	200
Net Benefit / (Loss) PKR/bag	-

# UREA KEY CHALLENGES

- ▶ Fertilizer industry continues to face challenges in the form of prior **subsidy** despite the fact that the subsidy given on fertilizers was timely passed on to farmers whereas the government is yet to pay back the subsidy (Industry - PKR 20 B, Efert PKR 6.5 B)

Subsidy ageing	PKR B
1 - 2 years	2.4
2 - 3 years	3.6
More than 3 years	0.5
<b>EFert Subsidy Receivable</b>	<b>6.5</b>

## GIDC

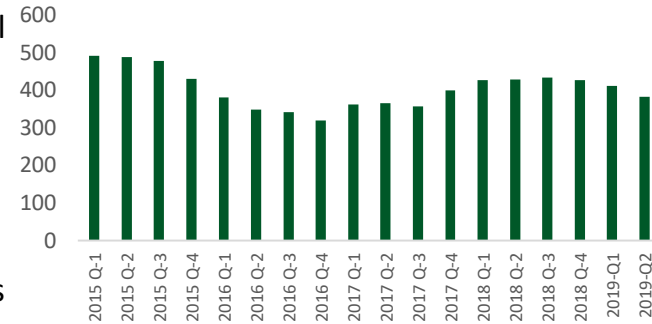
- ▶ Based on the recent engagements, the Cabinet has approved Gas Infrastructure Development Cess (GIDC) settlement mechanism for companies with reduction in rate of GIDC that is subject to settlement of outstanding dues. Following are the key principles underlying settlement:
  - ▶ 50% waiver in GIDC payables for the period Jan 2012 to Dec 2018
  - ▶ 50% reduction in prospective GIDC Feed and Fuel rates
  - ▶ No GIDC on concessionary gas going forward

# PHOSPHATES MARKET ENVIRONMENT

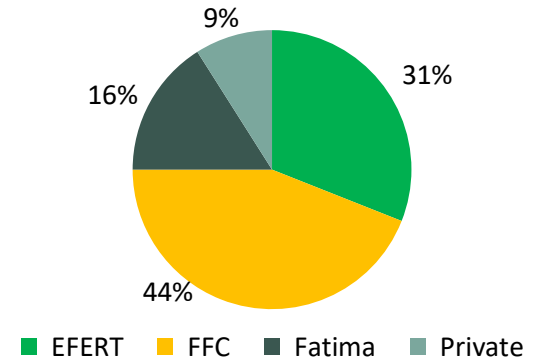


- ▶ 1H 2019 industry sales stood at 643 KT vs 679 KT in 1H 2018 (down 5%)
- ▶ Lower industry offtake was mainly due to escalating DAP international prices and rupee devaluation
- ▶ EFERT recorded sales of 214 KT during 1H 2019 vs 174 KT in 1H 2018
- ▶ EFERT's market share has improved to 31% for 1H 2019 vs 26% in SPLY
- ▶ Sales were higher primarily due to proactive sales and pricing strategy as well as consistent and improved product quality
- ▶ Industry inventory stands at 516 KT vs. 411 KT in June 2018
- ▶ International DAP prices have dropped from a high of USD 422/T in January-2019 to USD 355/T by 1H 2019 end. Moving forward, Chinese producers have decided to cut production to stabilize prices. As a result, international DAP prices are expected to stay within the range of USD 350-355/T in Q3 2019.

### DAP Prices CFR (USD/t)



### Market Share 1H 2019



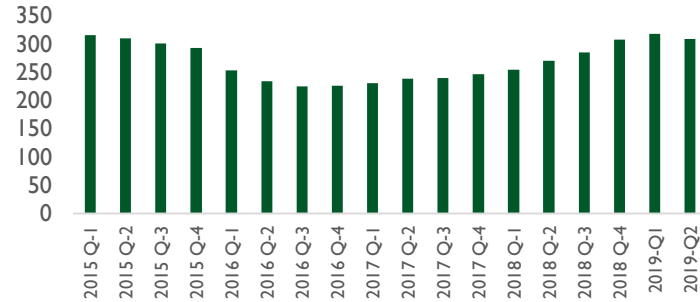


# SPECIALITY FERTILIZER BUSINESS

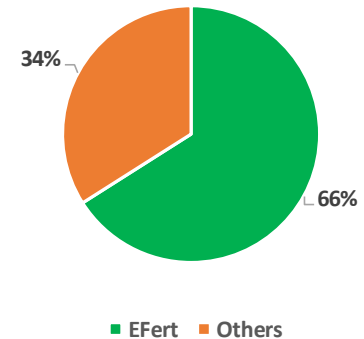


- ▶ Total sales for SFB stood at 110 KT vs sales of 81 KT in 1H 2018, an increase of 36%
- ▶ EFERT's potash market share clocked in at 66% vs. 48% in SPLY on account of competitive pricing vs private importers
- ▶ The overall potash market stood at 18.6 KT in 1H 2019 vs 18.5 KT in 1H 2018.

### Potash Prices (CFR) USD/t



### Potash Market Shares



# OTHER ACHEIVEMENTS

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- ▶ **PAVE Project** (Partnerships and Value Expansion in Seeds Value chain) has been selected as winner in the “Social Empowerment” category in Enterprise Asia’s regional awards held in Taipei, Taiwan on May 24, 2019. PAVE project has successfully completed its first year of operations and is running smoothly under leadership of Engro Fertilizer’s Crop Sciences Division in partnership with Engro Foundation, and MEDA, Canada. The project is co-funded by Engro Fertilizers Limited and DFAT (Department of Foreign Aid and Trade) Government of Australia.
- ▶ **Annual Environment Excellence Awards 2019** Engro Fertilizers Limited has received two awards for Best Environmental Performance and Tree Plantation. Every year, the National Forum for Environment and Health (NFEH) acknowledges the accomplishments of top companies shortlisted on their performance against a comprehensive criterion. Being the only company in Pakistan aligned with Dupont environmental standards and fully compliant with EPA Pakistan, EFERT remains the torchbearer in combating climate change through major environmental improvement projects



# GST REFUNDABLE BUILDUP

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- ▶ Refundable created due to mismatch between input and output tax:
  - ▶ Urea sales: **PKR 2.4B / year** (PKR 60/bag)
  - ▶ DAP sales: **PKR 1.3B / year** (PKR 111/bag)
- ▶ The refund over DAP sales also includes buildup due to introduction of 3% VAT.
- ▶ The tenor of the settlement of these refunds create working capital issues and thereby increase finance cost for the Company.



# BUDGET IMPACTS



S.No	Amendment and comments
1	<p><b><u>Freezing of future Corporate Tax Rate to 29% (Previously it was to be reduced to 25% till FY 2023):</u></b> EFERT's P&amp;L affected as follows:</p> <ul style="list-style-type: none"><li>▪ Deferred Tax Liability was reduced in 2018, which has now been restated</li></ul>
2	Final tax regime changed to Minimum tax, as a result now Final Tax or Normal tax whichever is higher will be applicable:
3	Income Tax credit on new plant & machinery which was previously 10% is being reduced to 5% for TY 2019. This credit is being abolished going forward
4	<p><b><u>Re-introduction of Minimum 3% VAT on imports through Finance Bill</u></b> 3% Value Added Tax on all commercial imports (relevant for us in case of DAP) is being reintroduced through Finance Bill.</p>



# THANK YOU

## Q & A

