



ANALYST BRIEFING

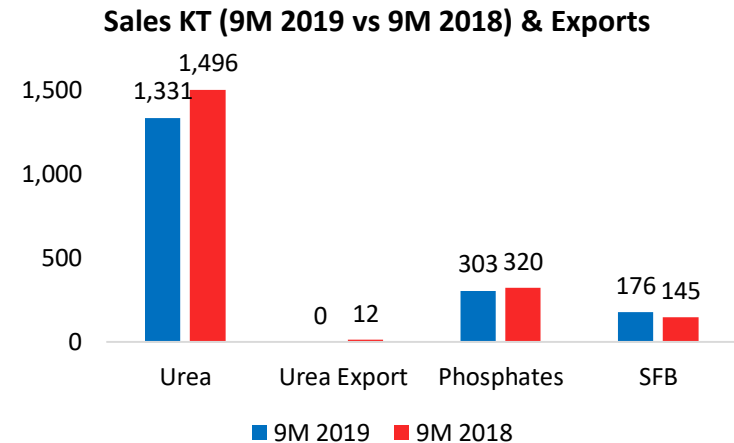
3Q 2019

BUSINESS HIGHLIGHTS



- ▶ For 9M 2019, EFERT's Profit After Tax (PAT) stood at **PKR 10,511 M** vs 9M 2018 PAT of **PKR 12,249 M**
- ▶ Lower profitability was due to:
 - ▶ Lower Volumetric Sales
 - ▶ Higher Gas Cost
 - ▶ One –off deferred tax charge
- ▶ The GMs clocked in at **32%** in 9M 2019, **2.5ppt down** last year as increase in input prices have outpaced the prices
- ▶ Finance cost was higher at **PKR 3,229 M** (vs PKR 1,420 M last year) as a result of higher policy rates and devaluation.
- ▶ During the quarter, the disposal of one of the subsidiaries, Engro Eximp FZE, was concluded. On a consolidated basis, the Company recorded a net loss of PKR **263 M** mainly on account of tax on disposal gain

PKR M	9M 2019	9M 2018
Total Revenue	77,462	69,215
Gross Profit	24,955	23,896
Finance Cost	(3,229)	(1,420)
Profit / (Loss) After Tax	10,510	12,249



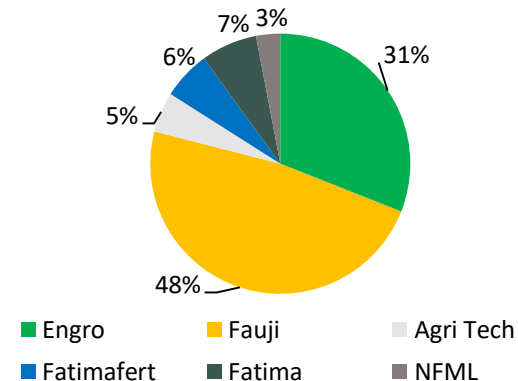
UREA MARKET ENVIRONMENT



- ▶ Urea industry sales for 9M 2019 clocked in at **4,330 KT**, up by 5% vs SPLY
- ▶ EFERT market share stood at 31% vs. 36% in 9M 2018 primarily on account of operation of LNG based plants and sale of imported urea.
- ▶ EFERT 9M 2019 sales were **1331 KT**, down 11% vs 1,496 KT SPLY , owing to recent uncertainty in market regarding urea prices linked with GIDC decision
- ▶ Industry urea production for 9M 2019 stood at **4,585 KT** VS 4,095 KT SPLY.
- ▶ LNG based plants added ~**641 KT** to the industry production due to allocation of subsidized LNG by the Government (Subsidy : PKR 1,250/bag / PKR 2B)
- ▶ On the international front, urea prices are currently at USD 280/T (Landed eqv. of PKR 2,600/bag) . Local fauji prices are currently at PKR 2,040/bag

Urea Industry (KT)	9M 2019		Change
	9M 2019	9M 2018	
Opening Inv.	186	260	
Production	4,585	4,096	
Imports	100		
Exports	-	75	
Sales	4,330	4,132	5%
Closing Inv.	492	130	

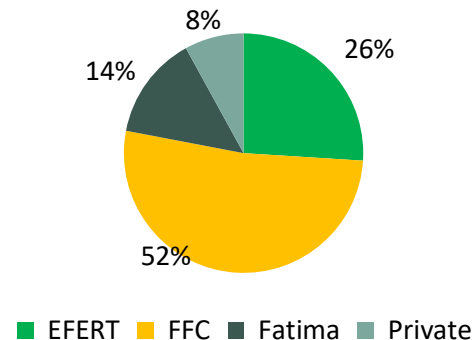
Market Share 9M 2019



PHOSPHATES MARKET ENVIRONMENT

- ▶ 9M 2019 industry sales stood at 1,181 KT vs 1,236 KT in 9M 2018 (down 4%). Lower industry offtake was mainly due to escalating DAP international prices and rupee devaluation
- ▶ EFERT's market share clocked in at 26% for 9M 2019 vs 27% in SPLY. EFERT recorded sales of 303 KT during 9M 2019 vs 320 KT in 9M 2018.
- ▶ Industry inventory stands at 397 KT vs. 749 KT in September 2018
- ▶ International DAP prices have dropped from a high of USD 422/T in January-2019 to USD 340/T by Q3 2019 end although a few players have contracted vessels at marginally lower rates.

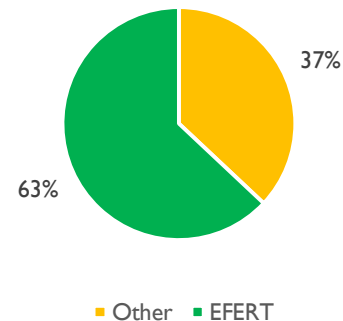
Phosphates Market Share 9M 2019



SFB MARKET ENVIRONMENT

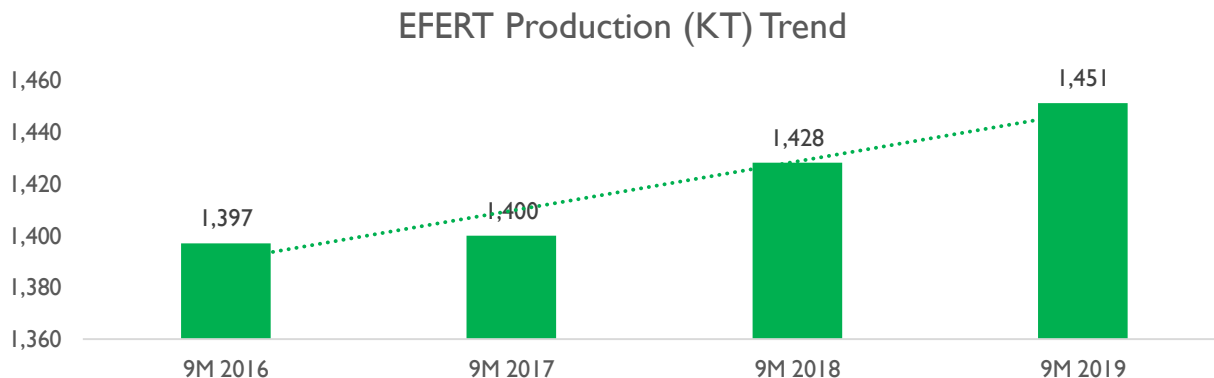
- ▶ Total sales for SFB stood at 176 KT vs sales of 145 KT in 9M 2018, an increase of 21%
- ▶ EFERT's potash market share clocked in at 63% vs. 46% in SPLY on account of competitive pricing vs private importers
- ▶ The overall potash market stood at 27 KT in 9M 2019 vs 27 KT in 9M 2018.

Potash Market Shares



Efert's Production is consistently growing

Higher Gas avails have led to higher production



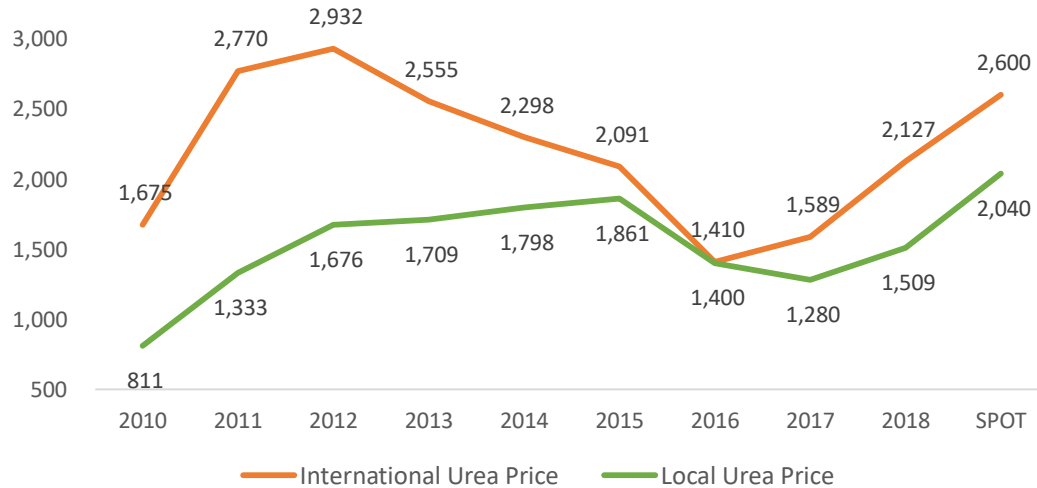
EFert's 9M production this year is the highest in last 5 years despite 2 turnarounds during the year

Industry Supporting farmers through affordable Urea

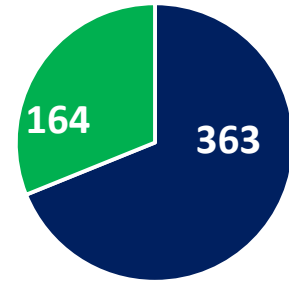


Despite significant delta vs. international Urea prices, the Fertilizer industry continues to transfer benefit to the farmer, which translates to **PKR 20 Billion** for the year, over and above the feed gas price subsidy

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



Subsidy share since 2010



- Benefit passed on by Fertilizer industry
- GoP Subsidy

Passed on more than 2x benefit vs. Government since 2010

Business Challenge: Increasing costs



Increasing gas price

Has resulted in increase in price of commodities

FP Gas increase
54%

PP Gas increase
17%

*Effective from 1 Jul 2019

*Avg YoY increase 2019

Concc. Gas
increase
32%

*Avg YoY increase 2019

Axle Load regime

Has resulted in increase in price of commodities

Expected Freight
Cost Increase
~32%

*Avg increase 2019

Business Challenges: Subsidy and GIDC



- ▶ 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
EFert Subsidy Receivable	6.5

GIDC: Amendment Ordinance was signed by the President on August 29, 2019 which was based on the following principles:

- ▶ 50% waiver in outstanding GIDC payables up to 31st December 2018
 - ▶ 50% reduction in prospective GIDC Feed and Fuel rate
 - ▶ No GIDC on concessionary gas going forward
 - ▶ Retrospective settlement of the new plants that are on 'concessionary price gas' was not catered to in the proposed GIDC settlement
- ▶ However, the Government withdrew the GIDC Amendment Ordinance 2019 and the matter is now in Supreme Court.

Business Challenges: Sales Tax Refunds

- ▶ 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 tenor of the settlement of these refunds create **working capital issues** and thereby increase finance cost for the Company.

- ▶ In Sept 2019, EFERT was successfully issued another ST Refund Bond of PKR 694M (inclusive of ST Refunds Bonds of Agritrade of PKR 383M) for its outstanding sales tax refunds. This led to aggregate recovery of PKR 2 B (including ST Refund bonds issued in first tranche of PKR 1.4 B).
- ▶ The company is incurring financial losses due to lower returns on the bonds and their lack of secondary market.

- ▶ **1SAP Go-Live** with effect from 1st of October. This is by far the largest SAP S/4HANA business transformation project in the private sector in Pakistan.
- ▶ **Best Corporate Report Award** EFERT secured second position for the best corporate report in the Chemical sector in August 2019
- ▶ **Corporate Social Responsibility Award 2019** EFERT was awarded the Annual National Forum for Environment & Health (NFEH) Corporate Social Responsibility Award in September 2019. This is one of Pakistan's premier recognition awards and winning this accolade is testimony to the high level of focus and commitment by EFERT towards corporate social responsibility
- ▶ **10 million safe manhours** EFERT's Commercial Division achieved a record breaking 10 million safe manhours in September 2019. This was a result of our commitment to achieve highest Safety Standards which has always been at the forefront of our values. Dupont Rating 4 clearly shows that teams are fully committed to achieve Safety excellence and would not compromise on safety at any cost.



SMART SUBSIDY

SOLUTION TO CHALLENGING FARM ECONOMICS AND LOW AGRI PRODUCTIVITY



Provide smart subsidy for agricultural inputs to 3 million small farmers (up to 5 Acres)

PTI Government's vision



Government's 100-days Agenda

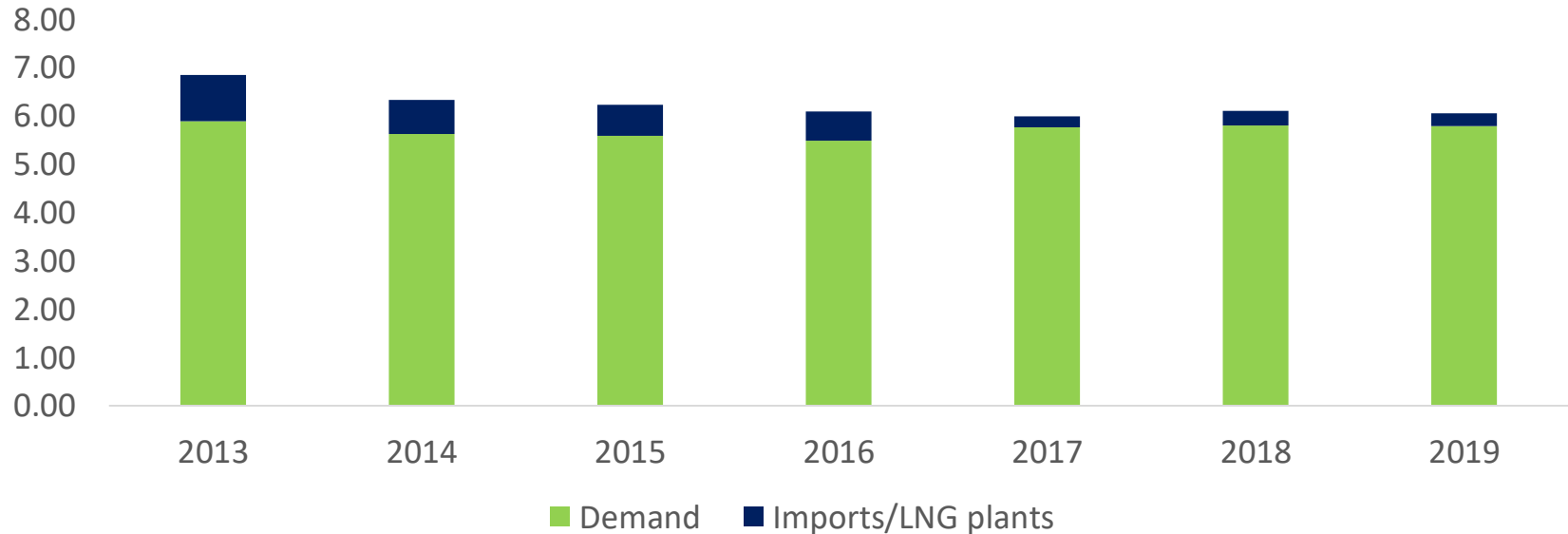
National Financial Inclusion Strategy

3.	Provide smart subsidy for agricultural inputs to small farmers			Provision of agricultural inputs subsidy to 3 million small farmers
	Development of subsidized Agri. input Scheme for Small Farmers through Digital Channels Notify list of authorized agri. input vendors at union council	March 2019	MoNFSR, MoF, MoITT, Provincial agri depts. & BORs, agri input suppliers, SBP, and Banks	
	Budget allocation over a period of 5 years for covering subsidized average annual input cost for farmers with land holding of up to 5 acres	June 2019	MoF	
	Mechanism for monitoring of the scheme to be developed	July 2019	MoNFSR	
	Payments to farmers and vendors to be made using digital platform (M-wallets/E-Account)	July 2019	MoNFSR, SBP and Banks	

Fertilizer supply gap met with imports...

Historically, domestic urea demand hovers between **5.6-5.8 Mn Tons** vs supply of **5.5 Mn Tons** from indigenous gas based plants
The shortage of **0.3 Mn Tons** of urea has been historically **bridged by expensive imports and urea production with imported gas**

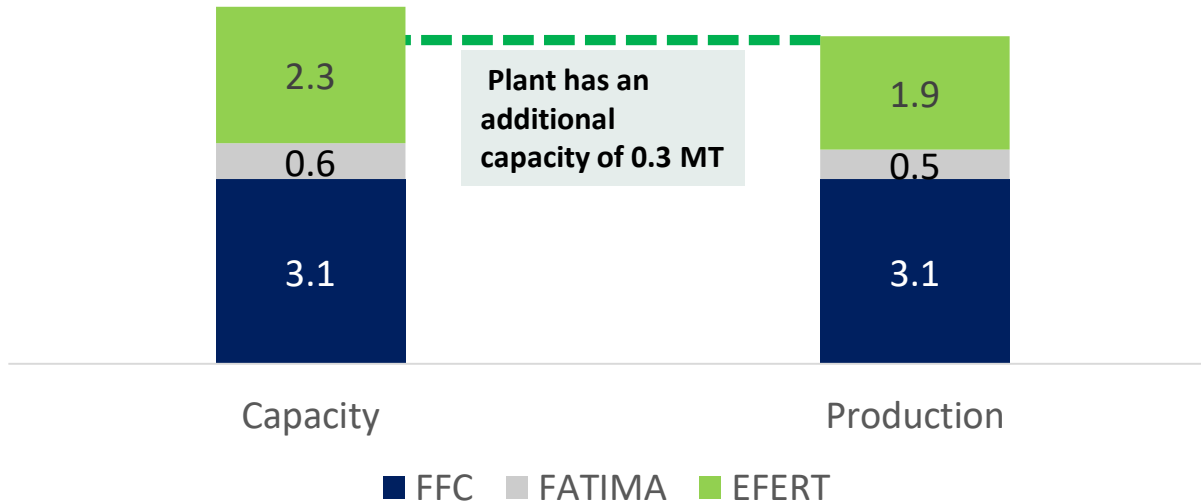
Urea Demand Supply Curve



... despite unutilized local capacity

Plants based on indigenous gas have **idle capacity** which can be utilized to produce incremental urea at **best efficiency index** eliminating the need for imported urea and imported gas for urea production

Capacity vs Production



**0.9 MT capacity of LNG based plants is not included*

Misdirected agri subsidy

FOREX outflow on Urea import & LNG plus subsidy on the said is aggravating the local economic condition

Burden on BoP

PKR 44 B

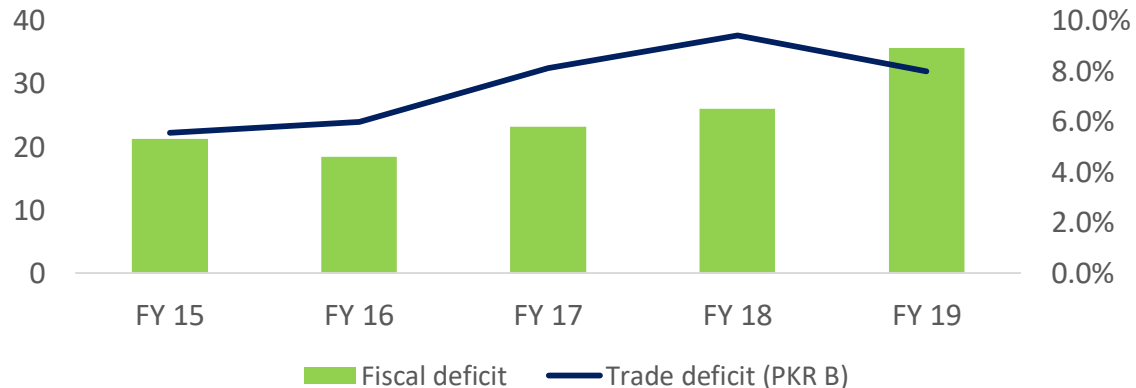
FOREX outflow on import of urea and LNG

Burden on fiscal deficit

PKR 21 B

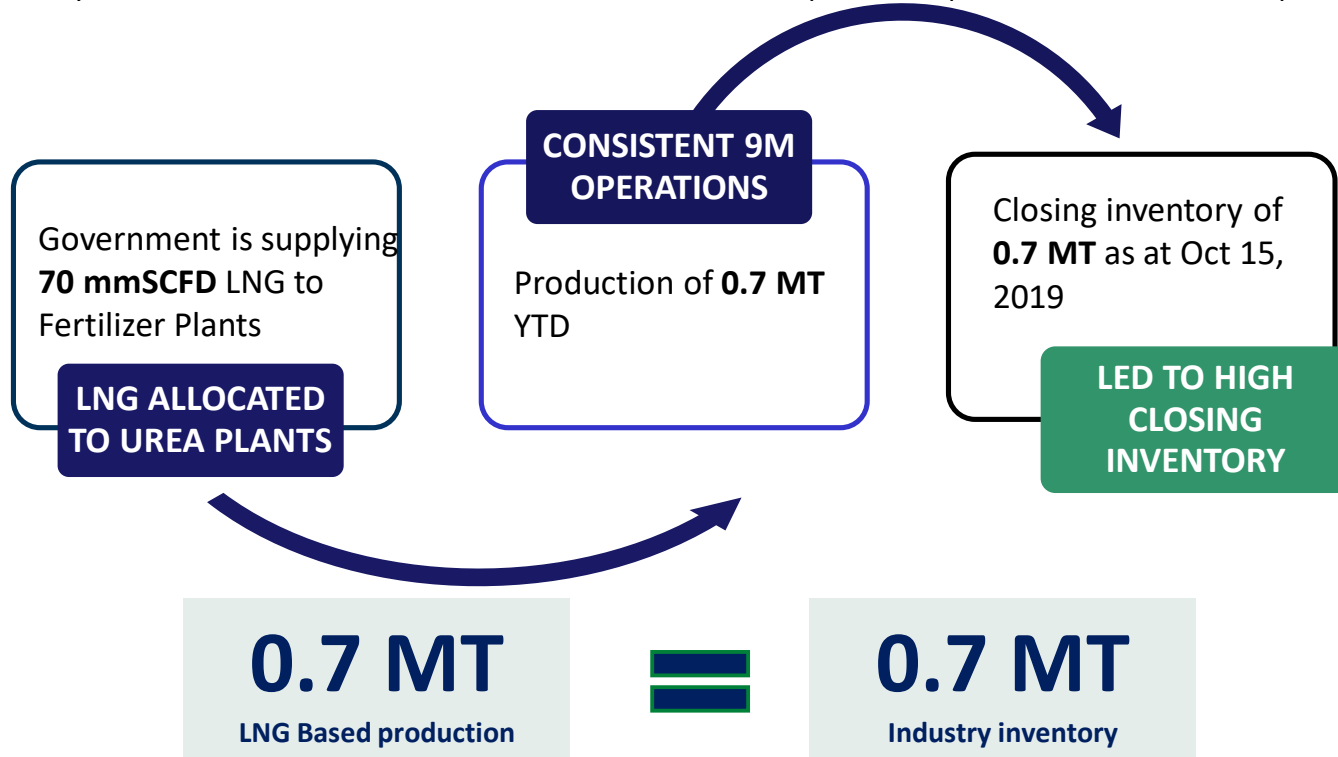
Subsidy on imported urea and urea produced from LNG

Fiscal Deficit and Trade Deficit



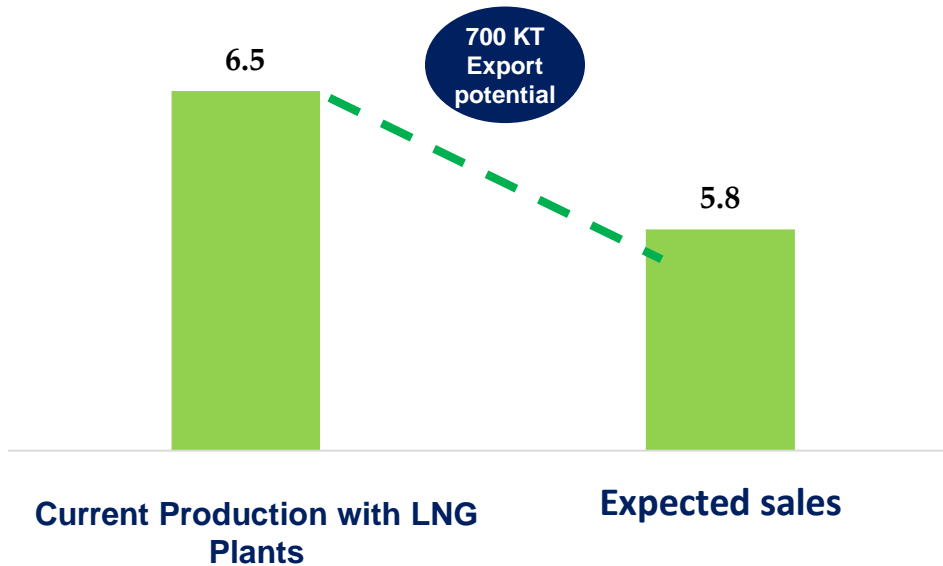
LNG based production is only leading to inventory glut

Closing inventory as at Oct 15, 2019 stands at ~0.7 MT which is almost equal to the production of LNG based plants



Excess Urea: Potential for Exports

Export potential of
USD 210M



**Proven Past
Record of Exports**

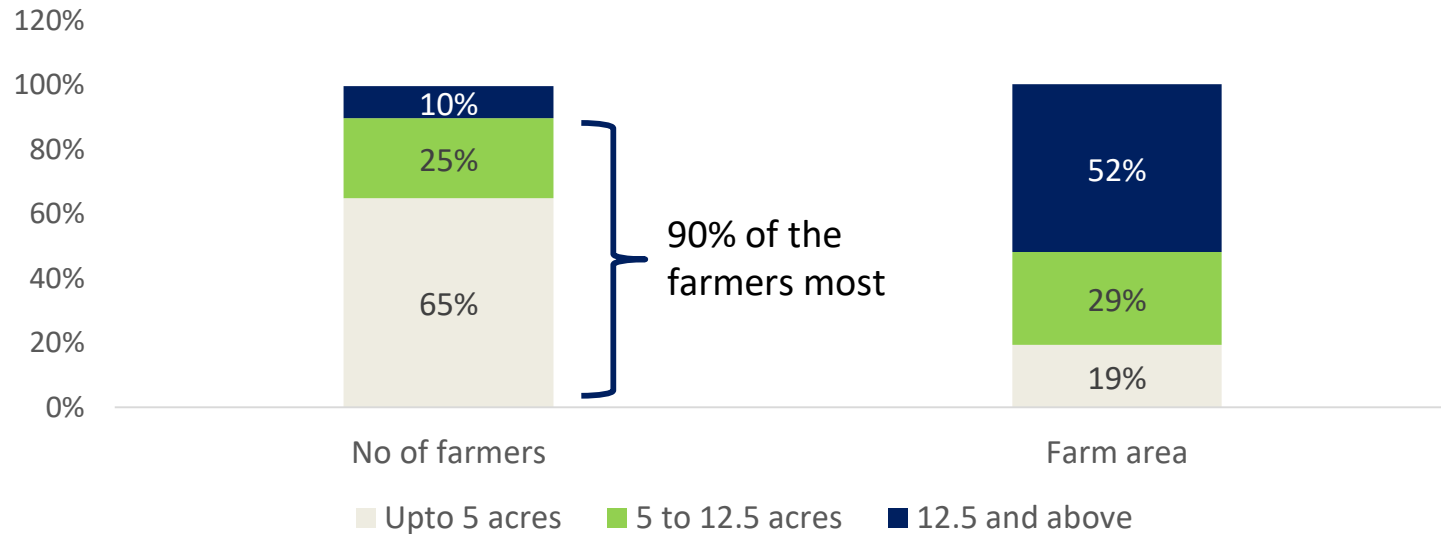
In 2017, ECC approved exports of
635 KT earning the country FX of
USD 150M

90% Farmers most impacted

90% of the farmers have a land holding size of **less than 12.5 acres**

52% of the farm area is held by remaining **10% of the rich land lords**

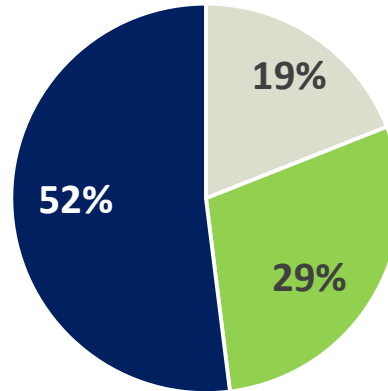
No. of Farmers vs landholding



Disproportionate impact of nation-wide subsidy

Any subsidy that aims to reduce nationwide fertilizer cost will pass significant balance to the rich zamindars

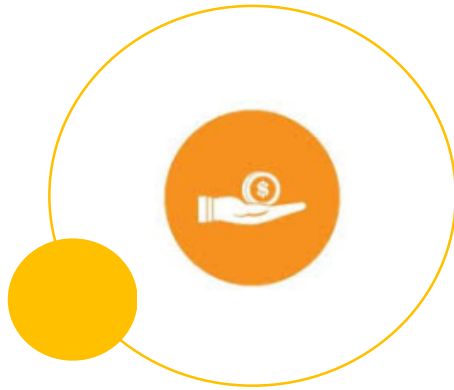
Subsidy Share (%)



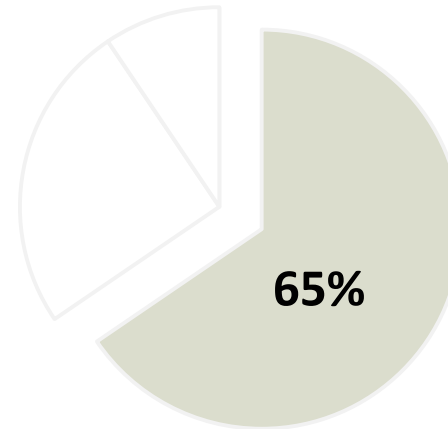
■ Kissan upto 5 acres ■ Medium scale ■ Zamindars

What can be done? - Kissan upto 5 acres

FREE UREA



100% subsidy on Urea
for small scale farmers



Kissan upto 5 acres

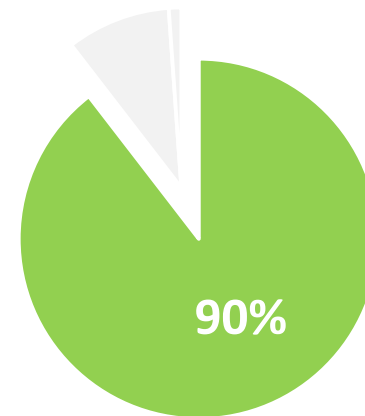
Expenditure on subsidizing LNG and imported urea can be used to provide free of cost urea to 65% of total farmers nationwide holding 19% of the land area

PKR 860/bag

Price reduction on urea



**43% subsidy on Urea
for small scale farmers**

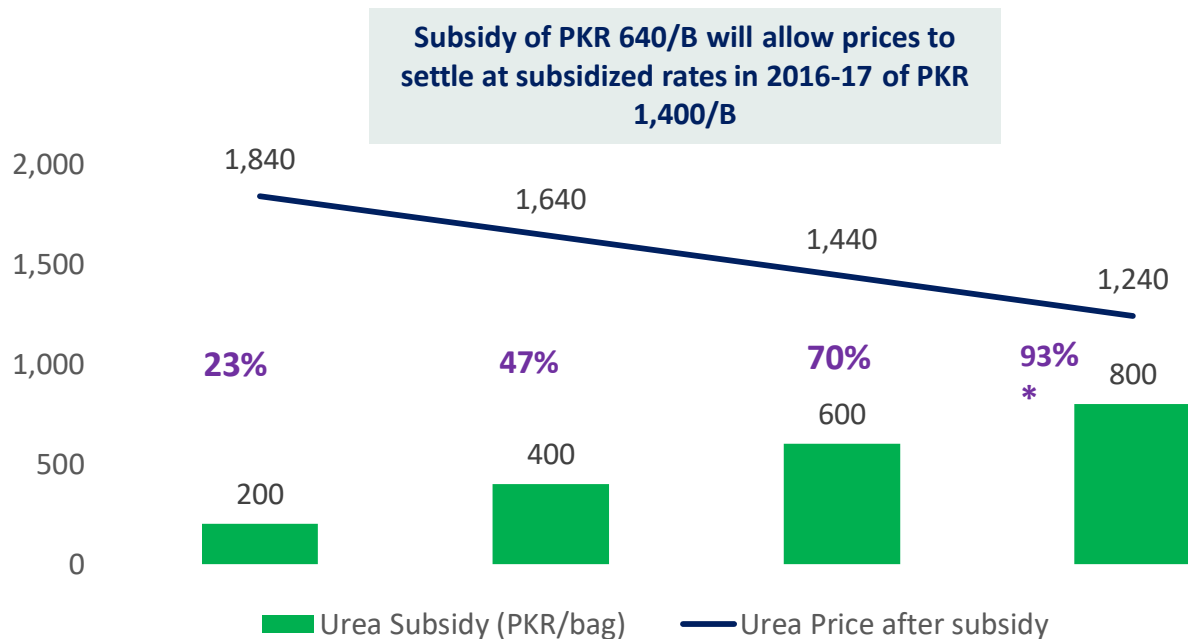


Small and Medium Scale Farmers upto 12.5

Expenditure on subsidizing LNG and imported urea can be used to subsidize urea price by PKR 860/bag to 90% of total farmers nationwide holding 48% of the land area

What can be done?-Small and Medium Scale Farmer

PRICE CAN BE REDUCED TO PKR 1,400/BAG WITH ONLY PKR 640/BAG AS SUBSIDY TO 90% OF THE FARMERS



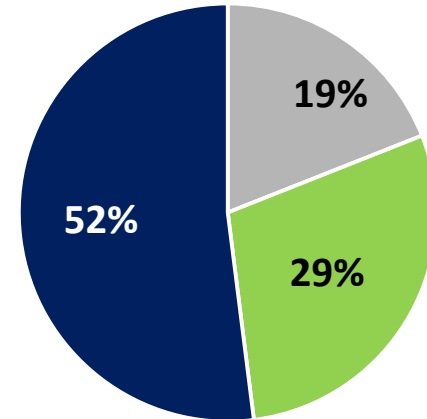
What can be done?-nation-wide

Expenditure on subsidizing LNG and imported urea can be used to subsidize Urea price by **PKR 350/bag** to **all farmers nationwide**



**PKR 350/bag
subsidy on Urea**

Will bring down the price of urea to
PKR 1,690/bag



- Kissan upto 5 acres
- Small scale farmers 5 to 12.5 acres
- Zamindars

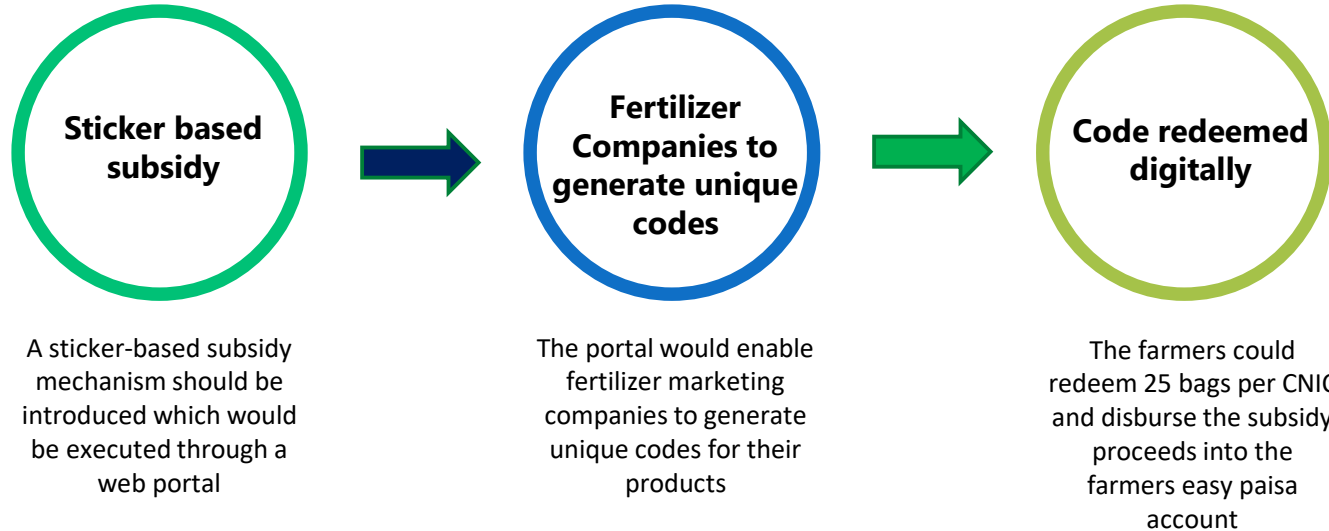


PROPOSED SUBSIDY MECHANISM



Proposed urea subsidy disbursement mechanism

The proposed subsidy disbursement mechanism is as follows:

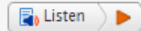


This mechanism has worked on phosphates subsidy given earlier this year

INTERNATIONAL
THE NEWS

Wed Oct 16, 2019

Targeted urea subsidy termed viable option to support small farmers



LAHORE: Government should directly subsidise small farmers instead of using 'blanket' subsidy to ease impact of rising prices of urea on growers, industry officials said on Monday.

The officials said blanket subsidy in the form of reduction in gas tariff or adjustment of taxes means lowering of urea prices for every user whether a big landlord or medium-sized landholder. Across-the-board urea price cut would only help large and powerful farmers, which would definitely not be a wise decision, they added.

As much as 52 percent of agricultural lands in the country are owned and operated by a mere 10 percent of farmers who are the large 'zamindars' (landlords).

"Any across-the-board downward revision of urea prices benefits these landlords, who otherwise can afford using the farm nutrients through their own means," an official said, requesting anonymity. "In fact, the government is already providing huge subsidy on urea manufacturing by importing expensive liquefied natural gas (LNG) and selling it at subsidised rates to its 'favourite' companies at the expense of taxpayers."

Key Takeaways and looking ahead.....



- ▶ **Smart subsidy mechanism** to improve balanced nutrient usage and resultant yields:
 - ▶ Subsidizing urea and DAP for farmers holding upto 12.5 acres
 - ▶ Improving use of Potash
- ▶ **Export potential** to be reaped as there is excess capacity available in domestic Urea industry

THANK YOU

Q & A

