EFERT Analyst Briefing Takeaways

Thursday, August 06, 2026

EFERT held an analyst briefing for 2QCY26, highlighting several key developments:

- EFERT reported 2QCY26 PAT of PKR 3.8bn (EPS: PKR 2.85), down 32% YoY from PKR 5.6bn (EPS: PKR4.17) however up 15% QoQ from PKR 3.3bn (EPS: PKR 2.48). The company announced a cash dividend of PKR 1.75/share (vs. PKR 4.25/share in SPLY), implying a payout ratio of 62%. Earnings included a one off SIDC gain of PKR 1.8bn following the settlement of its outstanding liability with the Government of Sindh. Management stated that the dividend policy remains unchanged, noting that the lower reported payout ratio was largely due to the inclusion of this non cash gain in earnings.

- Despite lower sales volumes, gross margins improved to 35.8% in 2QCY26 from 31.4% in 2QCY25 and 31.0% in 1QCY26, supported by higher realized urea and DAP prices. Meanwhile, higher inventory levels increased working capital requirements, resulting in elevated borrowings and finance costs, which management expects to normalize by year end as inventories unwind.

- Management attributed the weak 1HCY26 performance to inventory timing issues rather than demand weakness, as aggressive discounting in late CY25 pulled forward urea demand. The company expects inventories to normalize during the Rabi season, supporting stronger sales in 2HCY26 without offering further discounts.

- Industry urea offtake increased 18% YoY to 1.5mn tons in 2QCY26; however, EFERT's urea offtake declined 40% YoY to 258k tons from 431k tons, reducing market share to 17% from 34%. On a 1HCY26 basis, urea sales fell 22% YoY to 537k tons from 691k tons. Management expects industry demand to reach 6.6mn tons in CY26 and anticipates recovering market share in 2HCY26.

- DAP demand remained weak due to elevated international sulphur prices. EFERT's DAP offtake declined 54% YoY to 26k tons from 57k tons during 2QCY26, while 1HCY26 volumes fell 17% YoY to 67k tons from 81k tons. Management expects demand to remain under pressure and will continue sourcing imports from Morocco until regional supply conditions improve.

- Management confirmed that gas supply remained uninterrupted during the period. The company's gas supply agreement with SNGPL expires in Mar'27, while discussions for a direct gas supply arrangement with Mari Petroleum are underway. Management also confirmed that the gas allocation mix remains unchanged, with 30% of feedstock gas continuing to be supplied at concessionary pricing.

- The Pressure Enhancement Facility (PEF) remains on track, with Scope-II of Phase-I expected to be completed in 3QCY26 and the project becoming operational in 1QCY27.

- The company also continued expanding its Engro Markaz platform, increasing its retail network to 10 outlets serving nearly 2,000 farmers, with two additional outlets expected to commence operations during 3QCY26.

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Rating System:

If;

- **Expected return >15%** - Buy Call
- **Expected Return is in between 0% to 15%** - Neutral/Hold Call
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Valuation Methodology

To arrive at our period end target prices, DSL uses
different valuation methodologies including:

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)