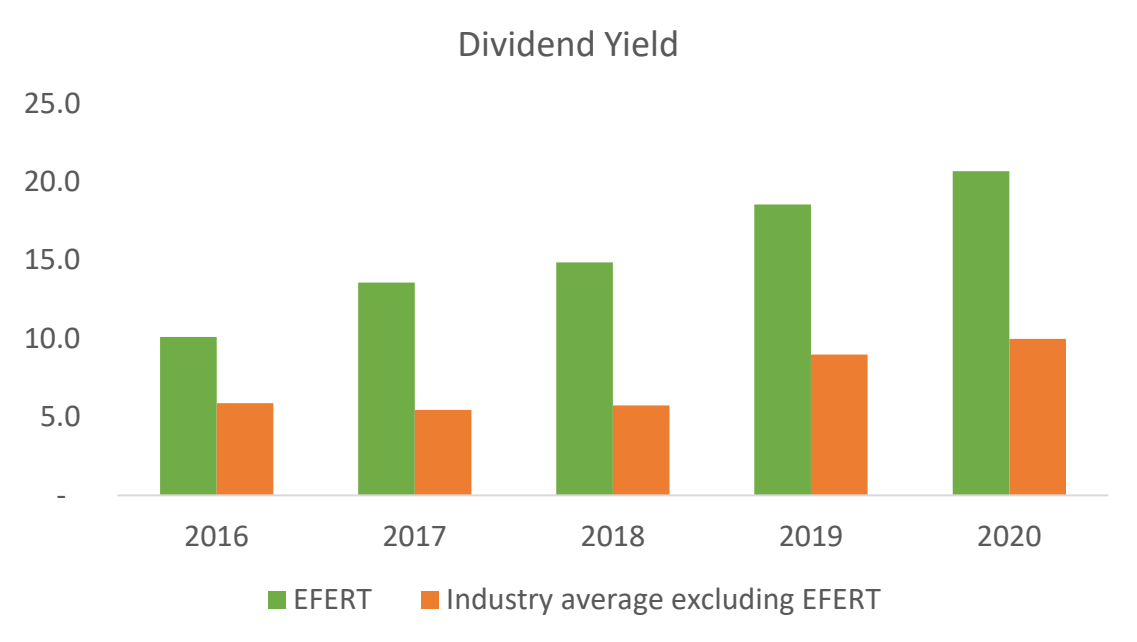
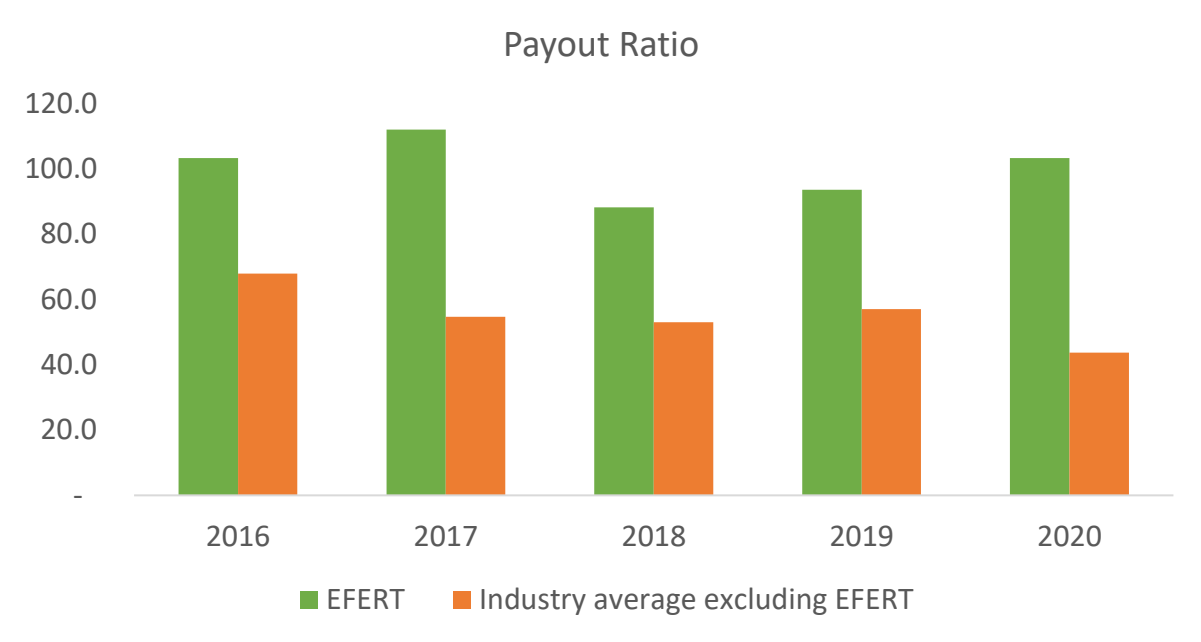
ANALYST BRIEFING
4Q 2021

Consistent High Dividends – 104% Payout in 2021

Engro Fertilizers has consistently paid out high dividends year on year versus the industry

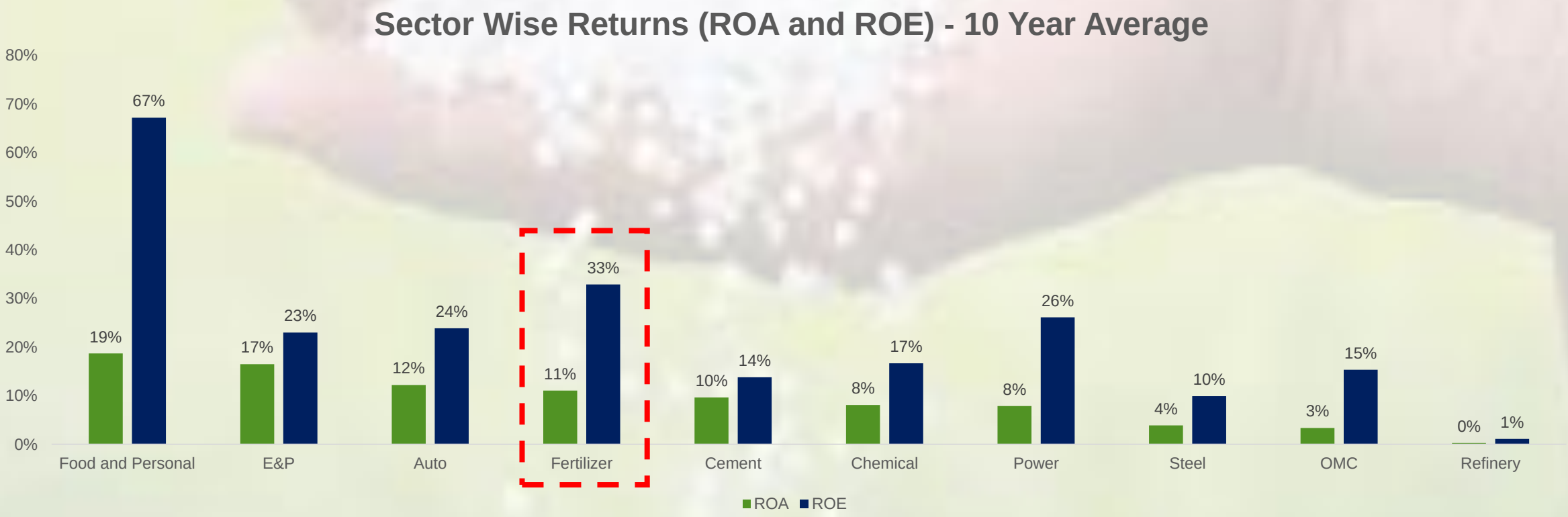




Data Source: SCStrade

Fertilizer Sector returns below other sectors

Industry Returns



Despite the introduction of the Fertilizer policy, return on assets for the fertilizer sector have remained lower than other sectors

Note: Returns have been calculated based on major listed players in respective industries.

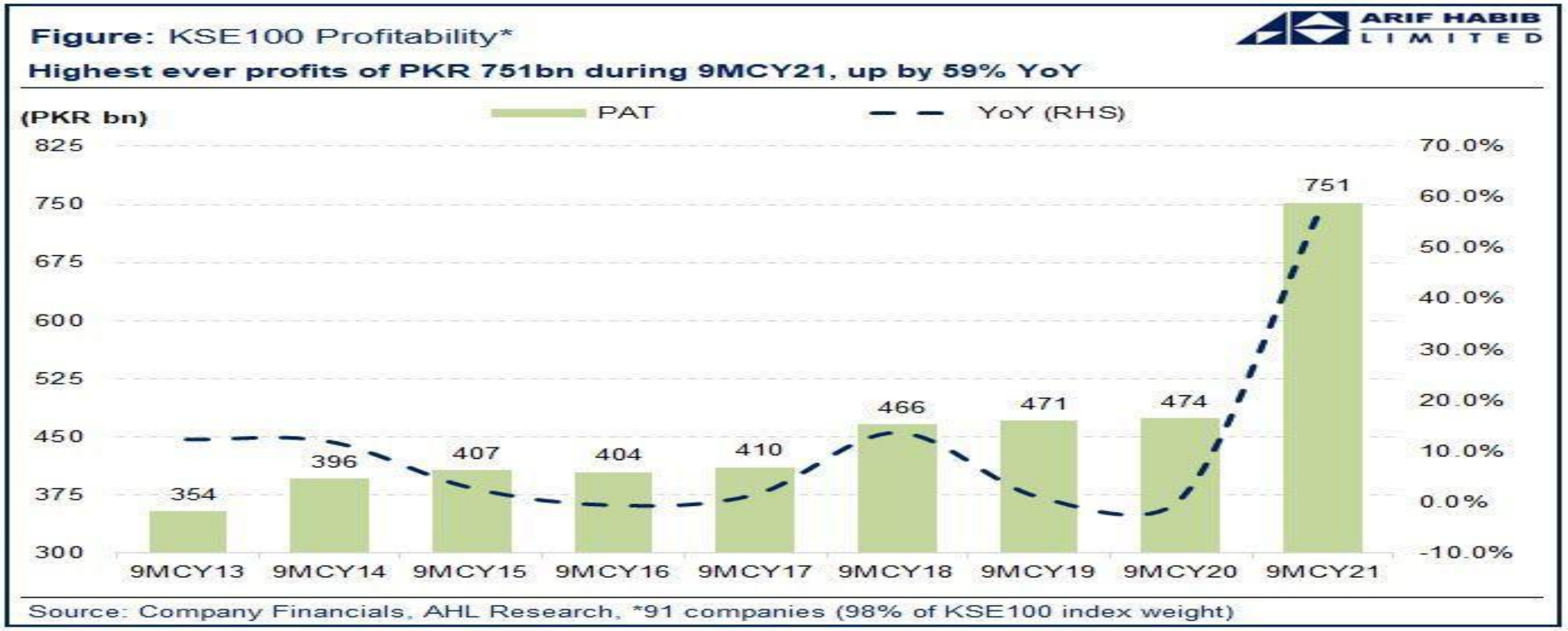
Responsible Player Safeguarding Nation's Food Security

Local urea prices remained at 2012 levels whilst international prices skyrocketed

Urea Prices remained unchanged in the middle of urea shortage

Earnings Growth below market average

Engro Fertilizers growth in profitability – 16% vs market average of 59%

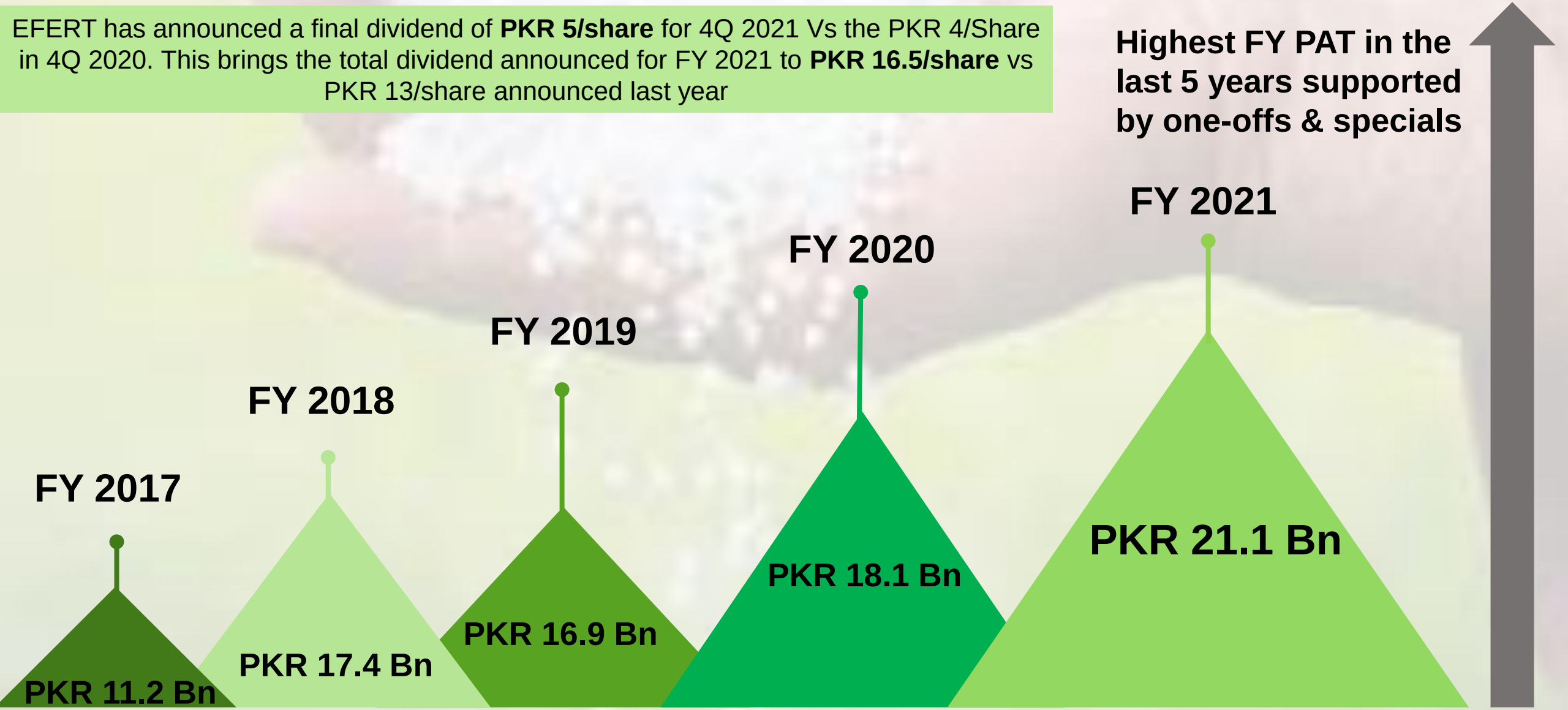


EFERT Highlights

1.2x Increase in FY 2021 PAT Vs FY2020

EFERT has announced a final dividend of **PKR 5/share** for 4Q 2021 Vs the PKR 4/Share in 4Q 2020. This brings the total dividend announced for FY 2021 to **PKR 16.5/share** vs PKR 13/share announced last year

Highest FY PAT in the last 5 years supported by one-offs & specials



2021 Earnings Growth

2021 Earnings growth supported by one-offs & specials

Reassessment of useful life and scrap value

Inventory gains on trading portfolio

Dealers' sales tax registration

Our profitability through the quarters…



Q4 2021 Vs Q3 2021:

Higher PAT in Q4 2021 mainly due to higher margins in Phosphates business and turnaround related activities on Enven plant diluting margins in Q3 2021, offset by loss on remeasurement of subsidy receivable from GOP

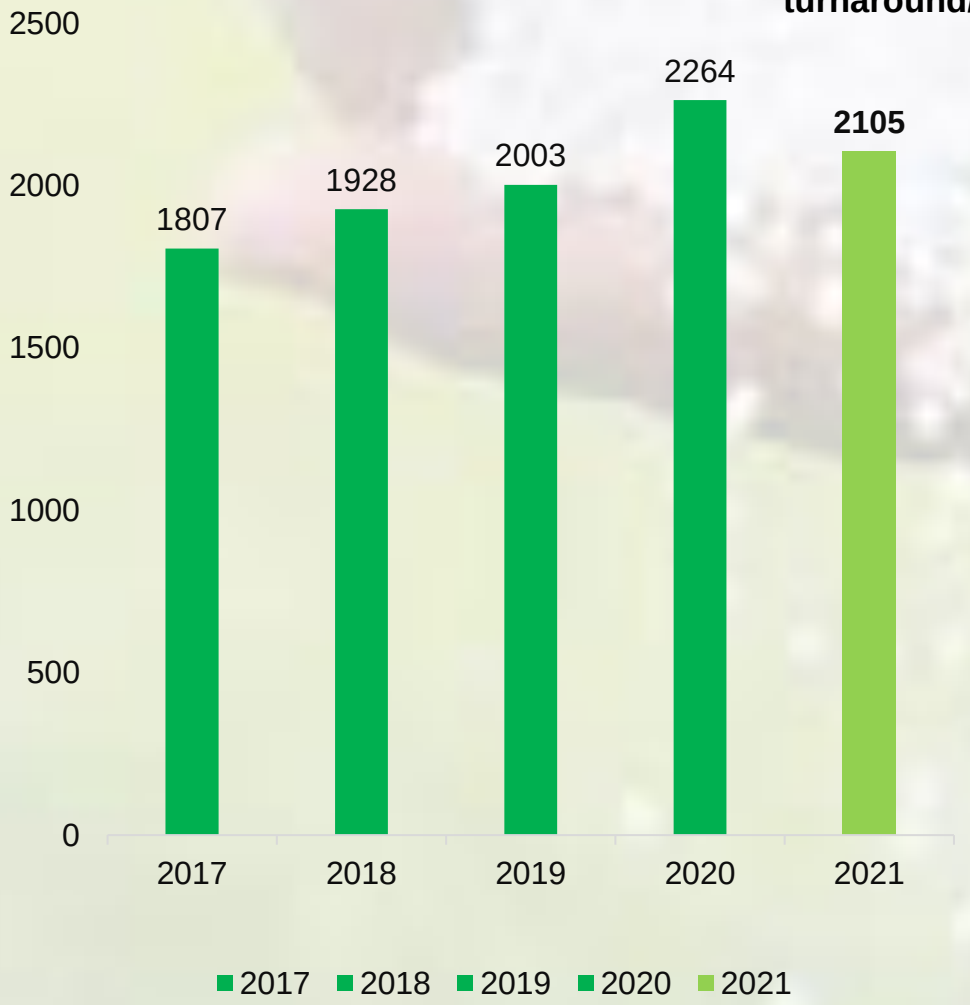
Q4 2021 Vs Q4 2020:

Lower PAT in Q4 2021 due to GIDC/Subsidy gain and tax reversals in Q4 2020 offset by better pricing and volumes of Phosphates

Highest Ever Urea Sales in 2021

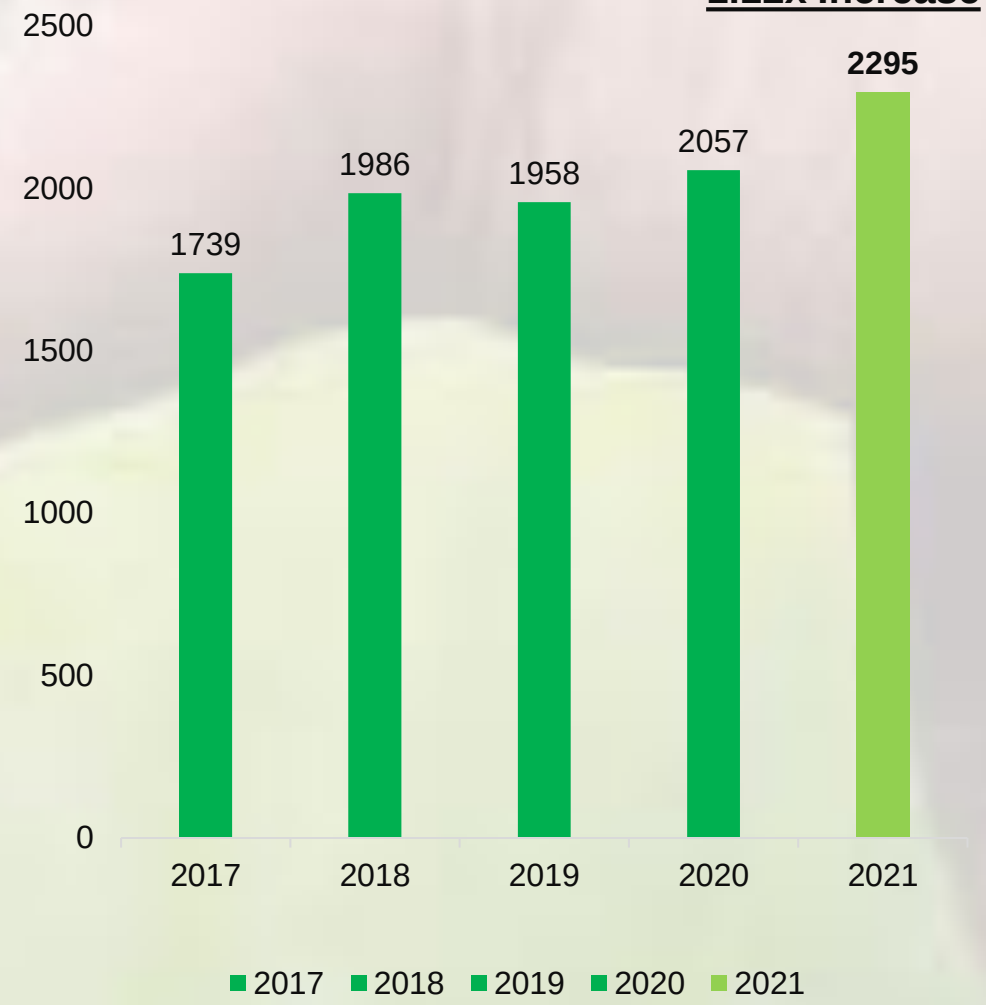
FY Urea Production (KT)

Lower Production due to plant turnaround/ outages



FY Urea Sales (KT)

1.12x Increase



Agri Sector Performance

Government Policies Have Ensured Positive Momentum In Agri Sector

Earning from Wheat and Sugarcane increased by 59% & 48% respectively; Cotton can see a minor dip while OL for Rice is positive



Wheat	2019-20	2020-21
Total expense (PKR)	35,682	38,632
Fertilizer Expense (PKR)	7,830	7,334
Yield (Maunds/Acre)	33	33
Grain Price (Rs/Maund)	1,360	1,770
Earning (PKR/Acre)	**20,748**	**32,978**

Wheat:

- Support price increased to Rs 1950/maund in Punjab while Rs 2200/maund in Sindh.
- Current market prices are around Rs 2400/ maund, but it is expected that Govt will procure wheat at support price under section 144
- Earning in Punjab expected Rs 34 K (3.2% up YoY), while in Sindh Rs 38.7 K/acre (18.8% up YoY).



Sugarcane	2019-20	2020-21
Total expense (PKR)	89,810	93,675
Fertilizer Expense (PKR)	11,000	9,950
Yield (Maunds/Acre)	710	725
Cane Price (Rs/Maund)	210	250
Earning (PKR)	**59,300**	**87,600**

Sugarcane:

- Support price in Punjab fixed at Rs 225/maund and in Sindh at Rs 250/maund.
- Due to shortage of cane and expected rise in price of sugar, the sale price for cane is above support price in both Sindh and Punjab.
- Farmer in Punjab is expected to earn 90.4K/Acre (3.2% up YoY), while in Sindh Rs 97.6 K/acre (11.4% up YoY0).



Cotton	2020	2021
Total expense (PKR)	46,774	56,506
Fertilizer Expense (PKR)	8,360	10,804
Yield (Maund/Acre)	15.7	20.5
Phutti Price (Rs/Maund)	4,200	6,000
Earning (PKR)	**19,166**	**66,494**

Cotton:

- 2021 was good for Cotton as seed quality was better than last year and favorable weather helped manage the pest and disease.
- NY Cotton futures for March'22 are 121 cents/lb Vs 91 cents/lb LY (21-01-2021) which is highest in last nine years.
- Karachi Cotton Market prices are also at record level (Rs 20,684/40 Kg vs Rs 11,896 LY).



Rice - Basmati	2020	2021
Total expense (PKR)	42,547	48,194
Fertilizer Expense (PKR)	6,805	9,142
Paddy Yield (Maunds/Acre)	34	33
Paddy Price (Rs/Maund)	2,100	2,350
Earning (PKR)	**28,850**	**29,360**

Rice- Basmati:

- During 2021, Yield was bit lower but price of paddy remained firm and earning improved by 1.8% to 29.3K.
- Jul-Dec 2021 Rice Exports are 2.08 Mn ton Vs 1.85 Mn ton LY. Major jump is in Basmati which is 343 KT Vs 233 KT LY (PBS). We expect improvement in paddy price next season as well due to export demand.

Following the momentum built over last year, improved **farm economics and availability of urea at significantly discounted prices compared to global levels.**

Domestic Urea Prices at a discount of 84% at 2012 Levels

**FOB Price*
USD 955/T**

**CFR Price
USD 985/T**

Landed Equivalent Price

PKR 11,027/Bag

Local Urea Price**

PKR 1,768/Bag

Domestic Discount on Urea

84%

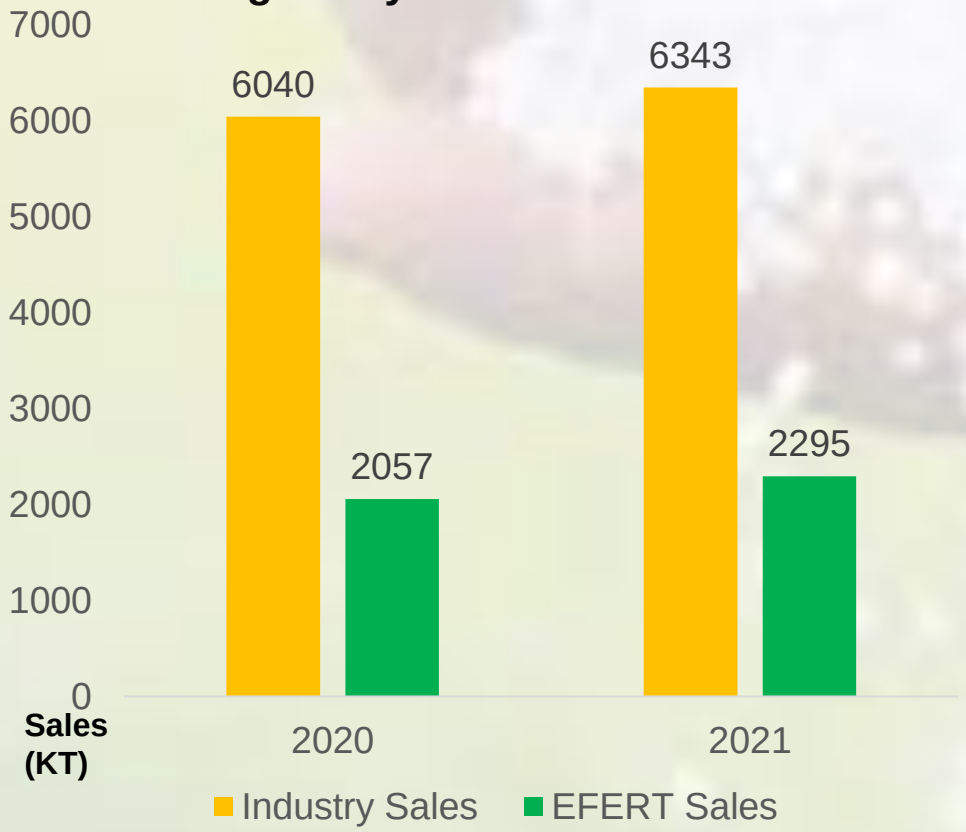
Over PKR 9,000 / bag discount

***Assumption**:*
FX Rate – 174.8
**Data Source: CRU weekly report average (11th November 2021)*
***EFERT MRP Price*

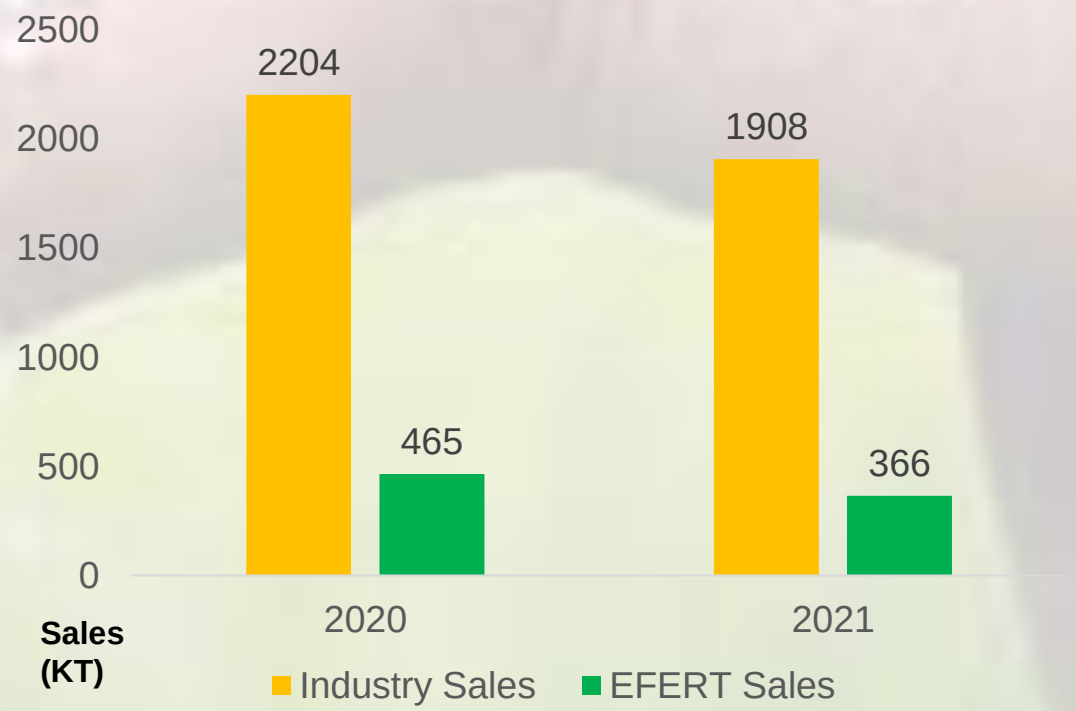
Industry
&
EFERT Business Performance

Positive farm economics driving growth in fertilizers sale

While Urea industry has grown by 5%, EFERT sales volumes grew by 12%



Phosphates market recorded a decline of 13% when prices were 2.3 times vs last Dec



Int DAP Price has risen by a higher proportion



International DAP prices have **increased** by **143%** in 2021 whereas **local DAP prices** have **increased** only by **127%**

** Sources: CRU (DAP Pakistan CFR Prices)*
Local Prices: EFERT DAP Multan Muzaffargarh DTP Prices

Challenges

Tax Disallowances

EFERT has always **supported** the **Government** in its drive to **widen** the **tax net**

Sales Tax/ Income Tax Disallowance

- Sales tax provision started since 01 Jan 2020
- Pursuant to several engagements with ministries/FBR, the fertilizer industry was able to successfully obtain **specific exemption** vide SRO 1337(I)/2020 dated December 16, 2020
- From April'21 onwards, **EFERT discontinued sales to unregistered dealers** exceeding **PKR 100m/annum**
- Provision for income tax has been booked in the current year in accordance with laws. However, with the registration of dealers, the risk has been substantially mitigated.

Expiry of Concessionary Gas

Concessionary Gas

- As per decision of ECC *"Since, **SNGPL** remained **unable** in **supplying contracted volumes** of gas to Engro, it is recommended that maximum period of 10 years for concessionary pricing **may be extended by the number of days for which SNGPL could not supply gas for operation of the plant**"*
- *The Company has obtained an **ad interim stay Order** from Sindh High Court*
- ***Discussion is underway** with the Federal Government and SNGPL to **extend the concessionary gas period** for the number of days for which **'Minimum Contract Quantity'** was not supplied.*

Subsidy Receivable

The industry is facing a challenge in the form of prior subsidy receivable from the government

- Subsidy amount recorded for the **industry** & **EFERT** is c. **PKR 20 Bn** & **PKR 6.5 Bn** respectively

Subsidy ageing	PKR Bn
2015 - 2016	0.11
2016 - 2017	3.9
2017 - 2018	2.4
EFERT Subsidy Receivable	**6.5**

The **benefit** of the subsidy has already been **passed on** to the farmers in the form of **lower prices**

- *These are gross amounts before adjustments of accounting provisions*
- *The position is as at 31st Dec 2021*

Sales Tax Refunds

The industry is facing a challenge in the form of prior sales tax refunds from the government of Pakistan

- Sales tax refund amount recorded for the **industry** is **PKR51.1Bn as of Nov 2021**

Tax Receivable ageing	PKR Bn
Dec 2016	0.04
Dec 2017	0.07
Dec 2018	0.24
Dec 2019	0.36
Dec 2020	2.82
Dec 2021	5.42
EFERT Sales Tax Refunds	**8.94**

Special Items For Discussion

Sr. No	Topic
1.	Fertilizer Industry's contribution towards the Nation
2.	Reasons for increase in urea demand
3.	Need for deregulation of the Fertilizer Sector

1

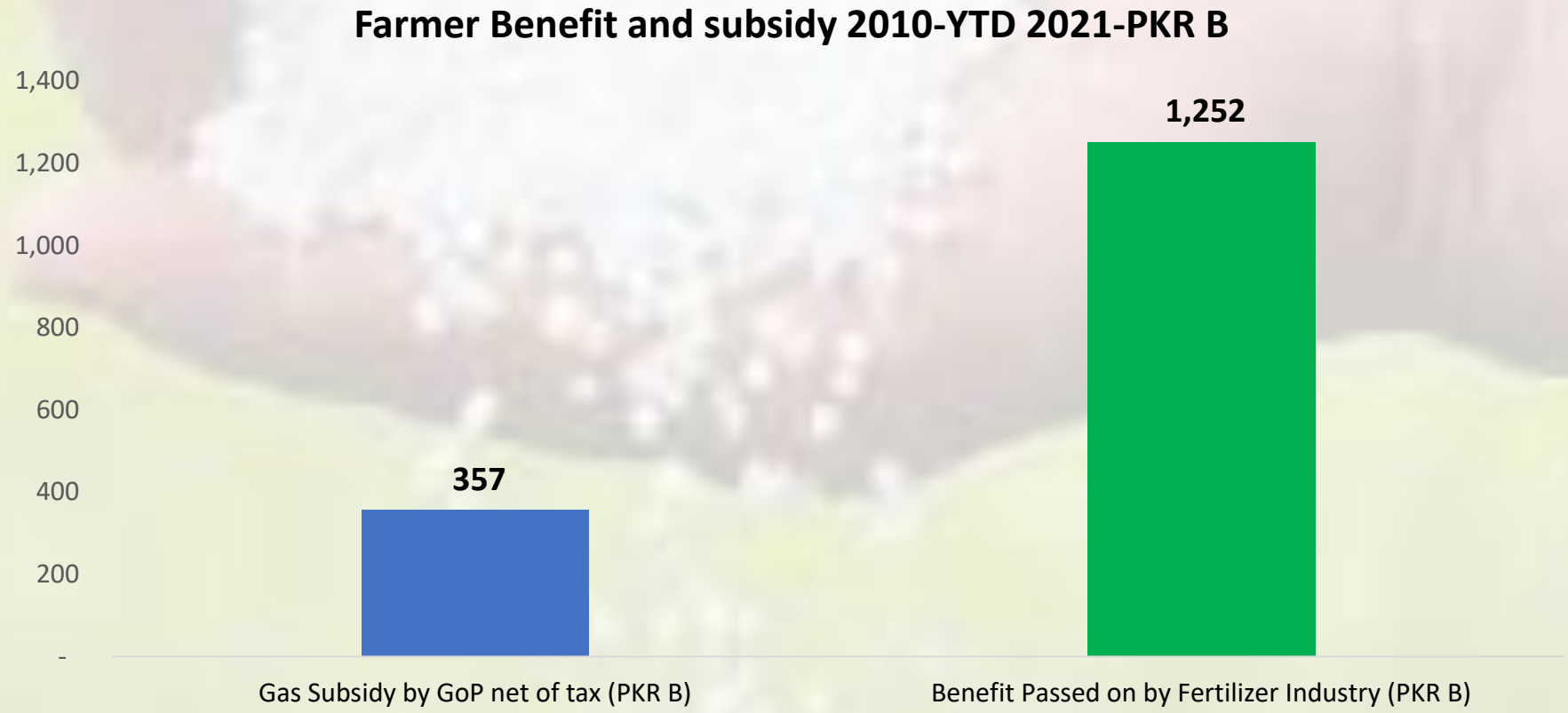
Fertilizer Industry’s contribution towards the Nation

Fertilizer industry has shielded the farmers from international urea price rise

International urea prices have increased by ~242% over the last 1 year



As a result, fertilizer sector has passed 3.5x benefit to farmers



Even though **local urea prices** are at a **substantial discount** than **international urea prices**, **subsidy benefit** of ~**3.5x** is still **passed** on to the farmers in the form of **lower urea prices**

Assumption: As per NFDC methodology, 25% incidentals plus other charges on CFR

Benefit passed through urea pricing is almost 10X on spot basis

Benefit passed on by fertilizer sector in the form of lower urea prices

Delta between spot international prices (Rs 10,891/bag) Vs local MRP (Rs 1,768/bag)



Feed gas subsidy provided by GOP to fertilizer sector

Delta between FP 2001 Feed rate (Rs 302/mmBTU) and Industrial policy rate (Rs 1,054 mmBTU)

Industry to provide significant import substitution and benefit to farmers

Annualized Import Substitution enabled by Fertilizer sector based on Average international prices

~USD 3.5 Billion

~USD 28/bag

Annualized benefit to domestic farmers based on average international prices

~PKR 524 Billion

~PKR 4,130/bag

2

Reasons for increase in urea demand

Government Policies Have Ensured Positive Momentum In Agri Sector…

Earning from Wheat and Sugarcane increased by 59% & 47% respectively; Cotton can see a minor dip while OL for Rice is positive



Wheat	2019-20	2020-21P
Total expense (PKR)	35,682	38,632
Fertilizer Expense (PKR)	7,830	7,334
Yield (Maunds/Acre)	33	33
Grain Price (Rs/Maund)	1,360	1,770
Earning (PKR/Acre)	**20,748**	**32,978**

Wheat:

- Area increased by 4.2%while production increased by 9% YoY
- Increase in production was attributed to favorable weather, good water supplies and input use.
- Support price was increase to Rs 1800/maund and farm earning improve by 59%



Sugarcane	2019-20	2020-21P
Total expense (PKR)	88,885	92,850
Fertilizer Expense (PKR)	10,075	9,125
Yield (Maunds/Acre)	710	725
Cane Price (Rs/Maund)	210	250
Earning (PKR)	**60,200**	**88,400**

Sugarcane:

- Area is estimated to improve by 12% due to better expected economics and water avails
- Support price increased to Rs 200/maund but due to high demand and high sugar prices, cane prices went up to Av. 250/maund
- Farm economics improve by 47%



Cotton	2019-20	2020-21
Total expense (PKR)	47,587	46,774
Fertilizer Expense (PKR)	9,100	8,360
Yield (Maund/Acre)	17.8	15.7
Phutti Price (Rs/Maund)	3,800	4,200
Earning (PKR)	**20,053**	**19,166**

Cotton:

- Cotton area declined by 12.8% in 2021 because of poor past experience related to seed quality, pest pressure and climate change (erratic rains)
- Due to high demand for textile products global consumption is expected to remain 124.1 Mn bales (4.6% up YoY) while production estimates are 119.6 Mn bales (0.67% up YoY)



Rice - Basmati	2020	2021P
Total expense (PKR)	42,203	42,547
Fertilizer Expense (PKR)	7,225	6,805
Paddy Yield (Maunds/Acre)	31	34
Paddy Price (Rs/Maund)	2,100	2,100
Earning (PKR)	**22,900**	**28,850**

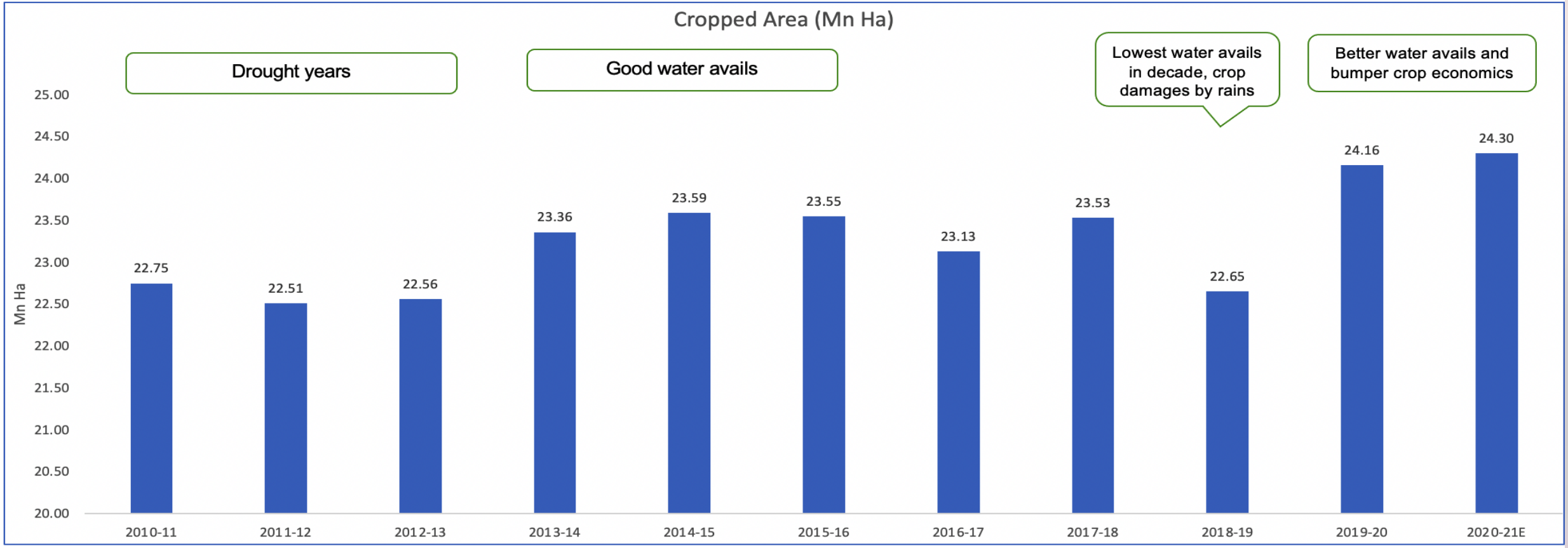
Rice- Basmati:

- Area increased by in third consecutive year by 7.6%.
- Basmati paddy prices are likely to see slight dip and earning is expected to drop by 36%, however, farmer will make profit of 18.4 K.
- Basmati export 734 KT Vs 890 KT LY (-18%)

Wheat and sugarcane earnings have increased by 59% & 47% respectively in 2021 versus last year

…and have led to increase in area under cultivation

2 Mn hectare growth over last 2 years



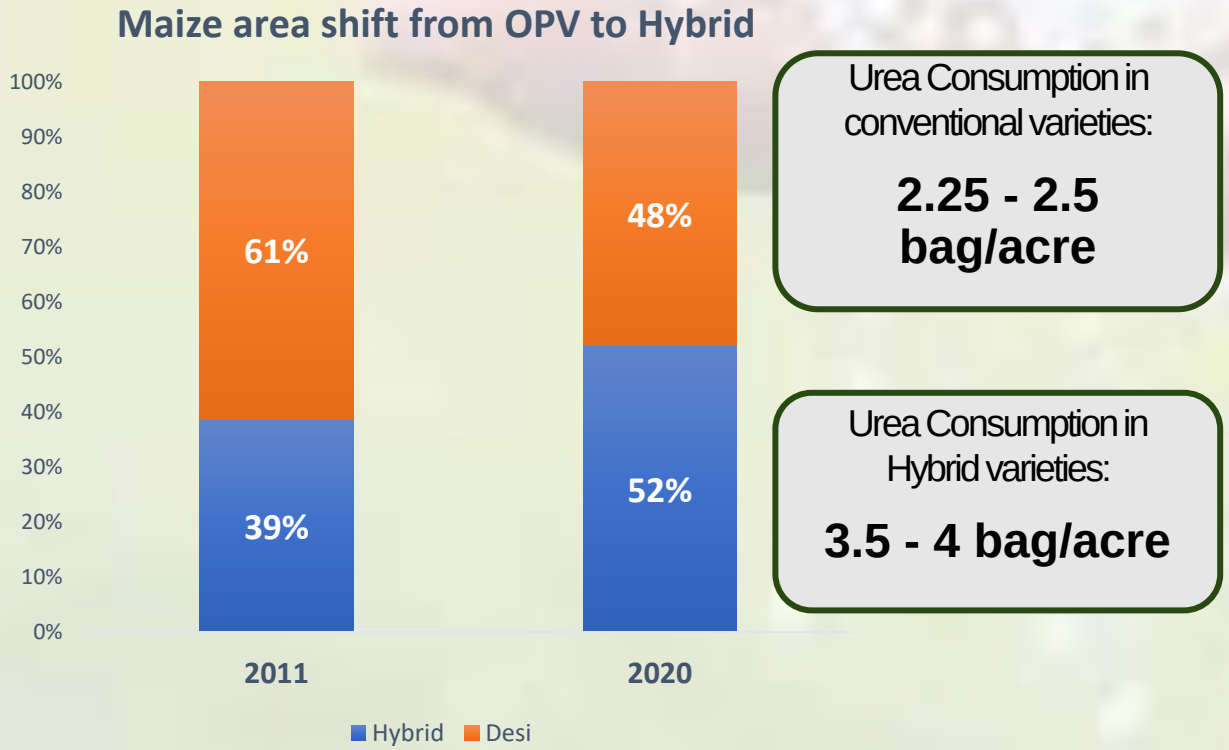
In 2008-9 crop acreage under cultivation was 24.12 Mn Ha. Hence there has been a major revival in crop area under cultivation in recent years along with better water avails in irrigated areas, timely rain in Barani areas & attractive crop economics. Last 2 years have been exceptional as farmers received highest ever prices of major crops, minor crops, pulses & vegetables.

Reference: Pakistan Bureau of Statistics

Crop area under cultivation has a CAGR of 0.7% however this cannot be used to corelate to Urea demand since area under cultivation does not have linear projection

Improved farm economics driving better agri practices

- *Maize area has increased over the years along with shift to hybrids thereby increasing urea demand*
- *For rice, conventional varieties are being replaced by hybrid as well resulting higher urea demand*

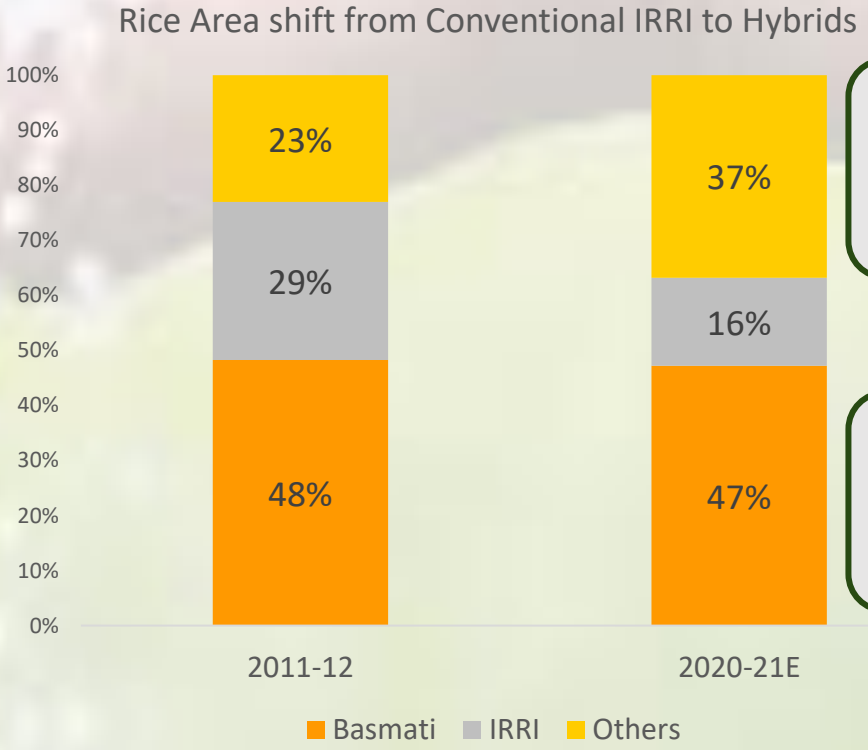


Urea Consumption in conventional varieties:

2.25 - 2.5 bag/acre

Urea Consumption in Hybrid varieties:

3.5 - 4 bag/acre



Urea Consumption in conventional varieties:

1.75 bag/acre

Urea Consumption in Hybrid varieties:

2.5 bag/acre

Reference: Dept of Agriculture, Private sector companies in maize hybrid business

Urea Demand has increased to 6.3 MT for 2021

Over last 3 years, demand has averaged at 6.2MT vs 10-year average of 5.8MT

Average 5.8MT; excluding 2012 5.9MT

Average 6.2MT



Key Takeaways

- Benefit passed on by fertilizer sector to domestic farmers through urea pricing is almost 10X on spot basis as compared feed gas subsidy provided to fertilizer sector
- Industry is all set to provide annualized import substitution of USD 3.5 billion and benefit to farmers of PKR 524 billion based on average international prices
- Government policies have ensured positive momentum in agri sector and increase in area under cultivation
- The above coupled with increase in area of maize and hybrid seeds, has led to increase in urea demand which is now expected to be around ~6.3 MT in 2021

3

Need for deregulation of the Fertilizer Sector

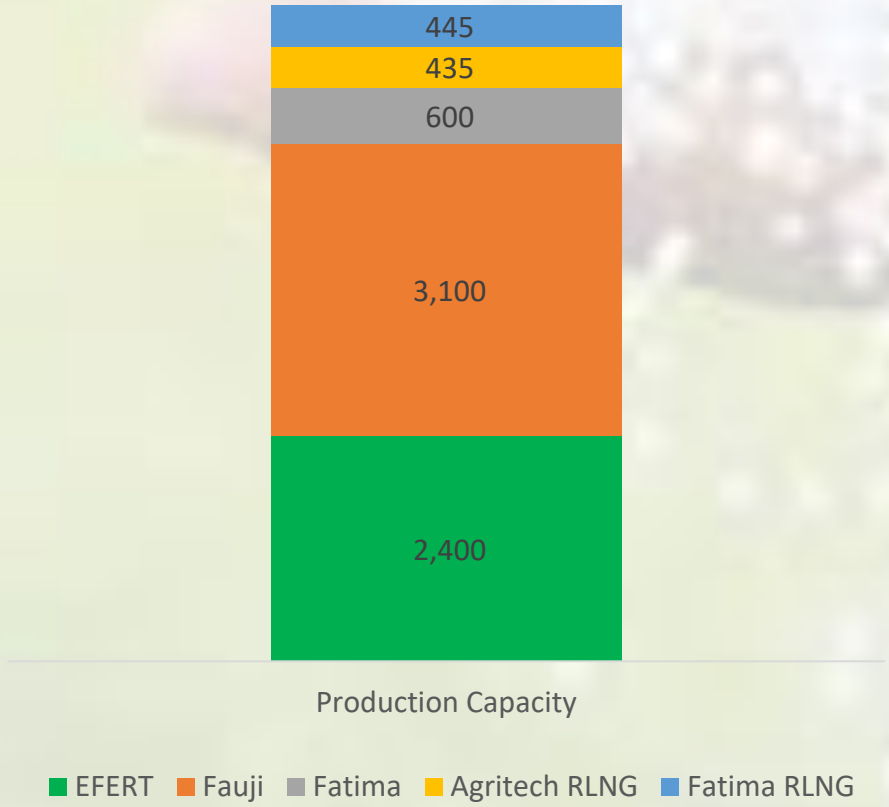
Fertilizer policy 2022-Proposal

Key components of new fertilizer policy proposal

- No gas subsidy –Uniform gas rate
- Urea selling price to remain fully deregulated
- Export of excess urea capacity
- Encourage debottlenecking of indigenous gas-based facilities
- Encourage gas efficiency projects

USD ~745 Mn export opportunity without any capital outflow

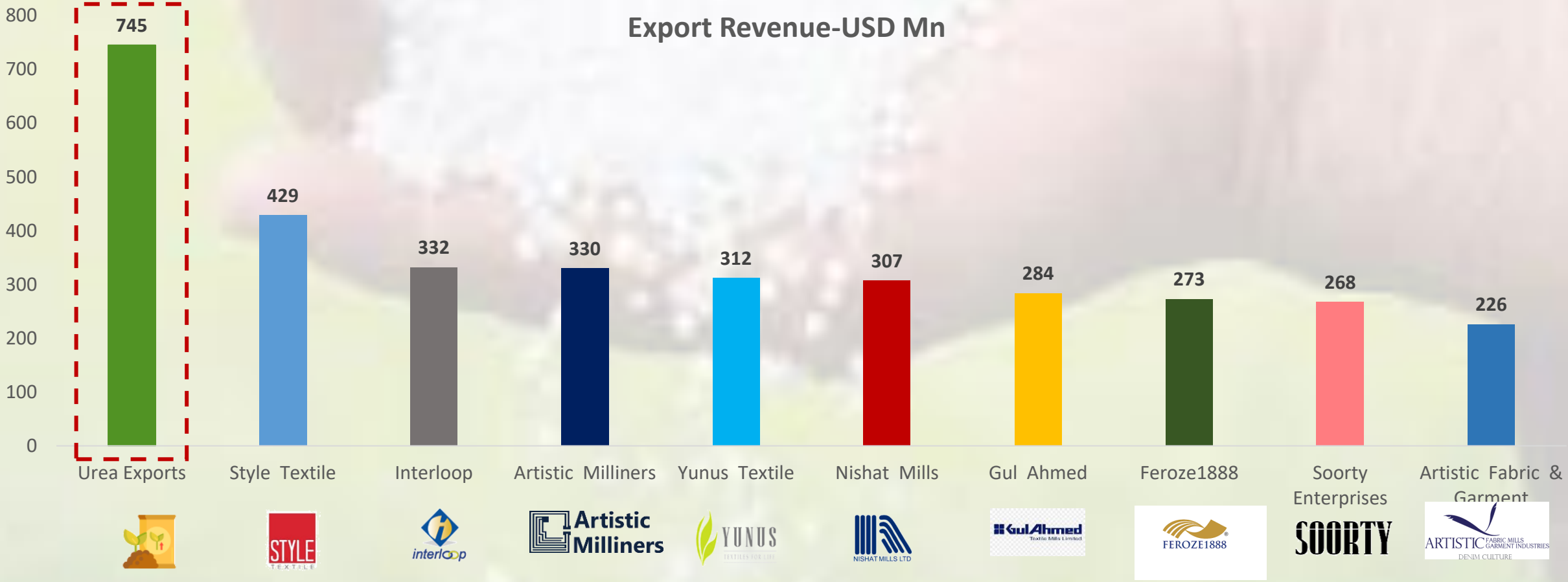
Production Capacity 7 MT



Last 2-year average urea Demand 6.2 MT

Export opportunity 0.8 MT USD ~745 Mn

Urea - Potential To Be The Top Exporter



Note: Export data for other companies is of FY 21 (https://www.businesstribune.com.pk/business-news/pakistans-top-25-exporting-companies-in-2021/)

Urea export: At year end December 2021 International price FOB of USD 931/ton and 0.8 MT exports

Urea exports will generate significant **foreign inflow** and could become the **top exporter** without any additional investment


EFERT- Our Reason for Being ?


a promise of growth


we grow nutrition
1/3rd
wheat crop served
37%
rice crop served


we grow taste
40%
potato crop fields served


we grow fashion
40%
cotton crops served


we grow prosperity
PKR
5 Bn
PAT 2011
PKR
17 Bn
PAT 2018


we grow sustainability
USD
600 Mn
annual import substitution


we grow possibilities


crop protection
2x
peak vol. of certain vs competition
5x
pace of growth vs competitors


agri-logistics
4x
fleet growth by 2021
790
3rd largest fleet in 3 years


we grow hope
&
dreams


snake-bite
centre
100k+
patients
treated
since 2005


artificial limbs program
150+
beneficiaries
impacted
in 1 month


sahara school
520
students
enrolled


technical training college
2,500+
alumni
to date


Livelihood Program
CSR initiative
+50
Community
Service Hours
+30
Beneficiary
Families

Doing Good While Doing Well

Infrastructure

Installation of solar lights at Jung and Baloch colony and **installation of 110 benches** at different areas of Daharki, Sukkur railway station. Minar Pakistan Lahore and Lahore fort.

Livelihood

Distributed **50 stitching machines** to deserving beneficiaries at Daharki city and nearby areas. Further, **12 livelihood projects** were distributed among the widows and poor families.

Medical Services

Free of cost **anti-rabies treatment facility** has attended around **139 cases** until now, while **Engro Limbs Facility** has treated **294 cases to date**.

Medical Camp

Sahara clinic organized free of cost hearing Aid camp in Daharki. Total **566** individuals were screened, and **126** deserving individuals were fitted with hearing Aid devices.

Greener Footprints

Approximately **30,000 trees** were planted during the quarter around the plant and nearby village under **million-tree project & watan kay naam drive.** Overall, more than **300,000 trees** planted till date

Awards & Recognition

No. of Awards 2019



23

No. of Awards 2020



39

No. of Awards 2021



40

Awards

International Safety Awards 2021 – Daharki Plant

13th International Annual CSR Summit & Awards 2021 (Employee Engagement , Livelihood & COVID'19 Crisis Management & Green Energy Initiative)

10th Annual International CSR Summit Awards (CSR Events, Community Impact & Employee Volunteer)

RoSPA Fleet Safety 'Gold' Award 2021

Global Best in Manufacturing Sector & Best in Country

Global Corporate CSR Awards 2021

Awards

Most innovative Fintech Data Solution Provider
-**Best banking tech** of the year
-**Best payment technology**

3rd Position in Chemical and Fertilizer Category

Health & Safety Gold Award – Daharki
Health & Safety Silver Award – Zarkhez

Annual Environment Excellence Awards
-Best Environment performance
EFERT Daharki Plant
EFERT Zarkhez Plant
EFERT Field Warehousing

Agile Finance was featured in **Finex Summit 2001**

Hazards & Controls Associated with “Work Equipment” & “Transport Safety”

Awards

Largest taxpayer Award in the Fertilizer Sector

Amir S Chinoy Corporate Excellence Award in Industrial Category Overall

CFA Society Award in the category of Gender Diversity at Workplace

UN Women 2021 Asia Pacific WEPs Award- Region's First Runner-Up in the category of Leadership Commitment

Industry Stewardship Champion 2021 award

11th Annual Fire and Security Convention Award

Awards

Pakistan’s largest S4 HANA digital business transformation in the private sector-Bronze Award

Most inclusive organization of Pakistan GDEIB Awards 2021

Rising Star of Safety award


together we grow
Pakistan