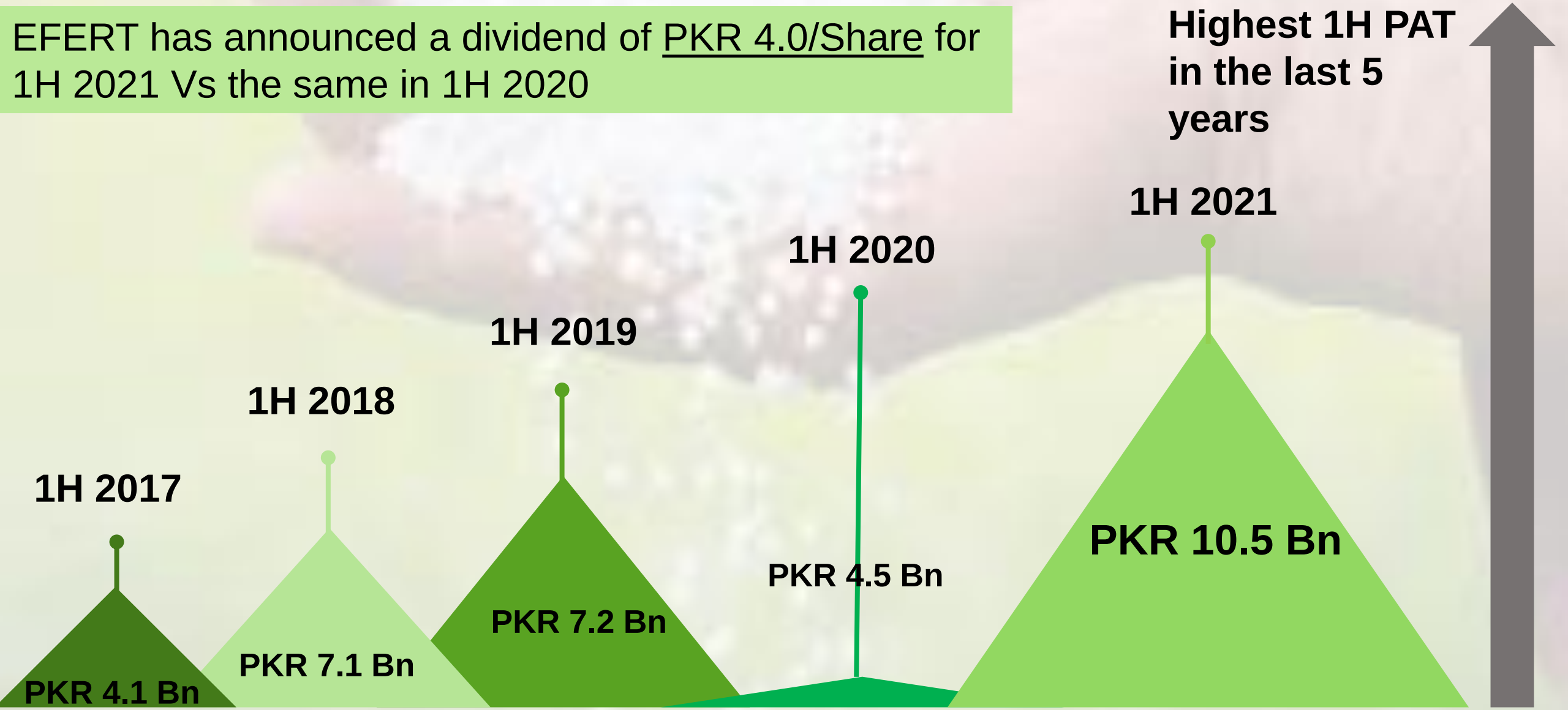
ANALYST BRIEFING
1H 2021

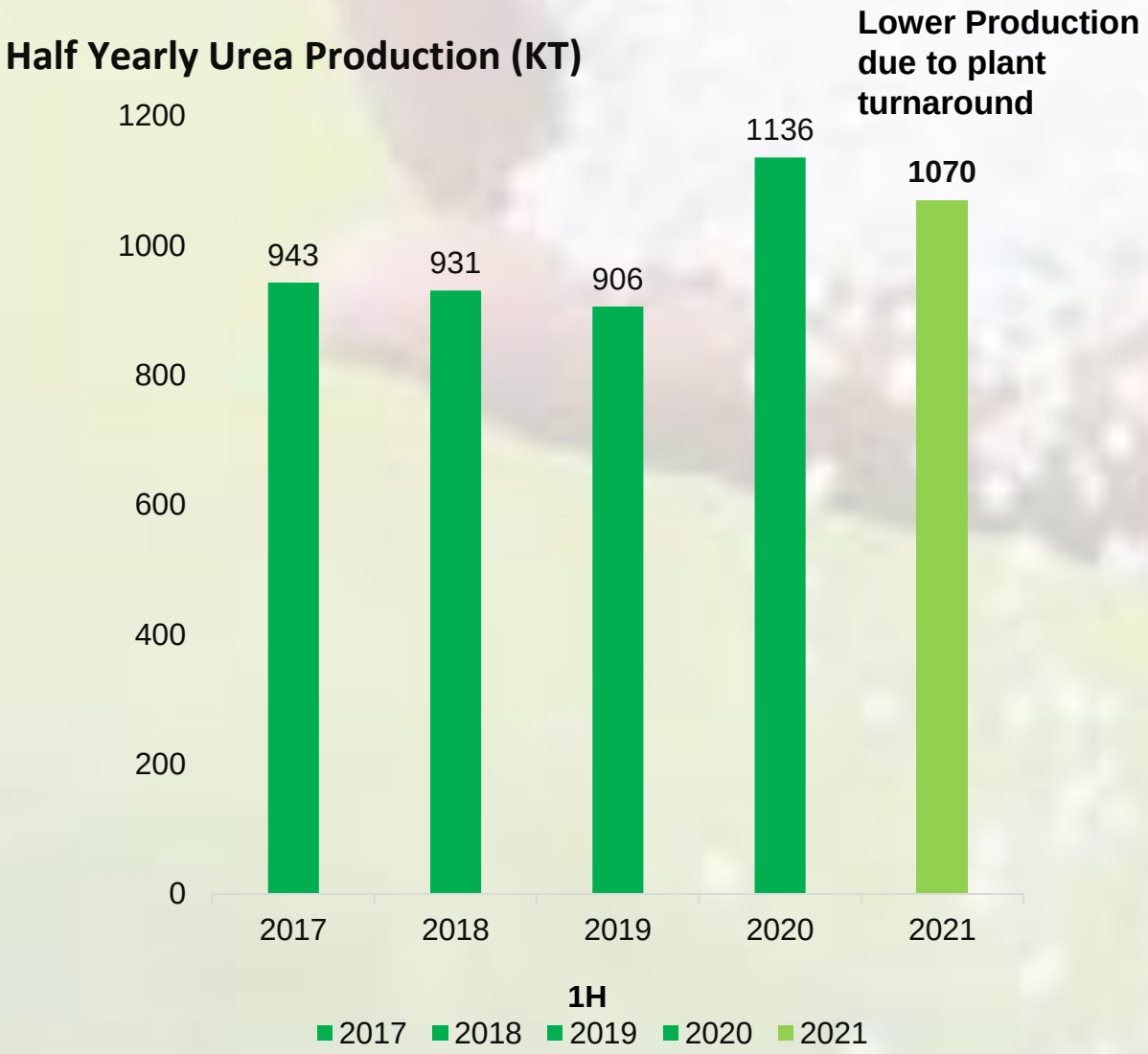
EFERT Highlights

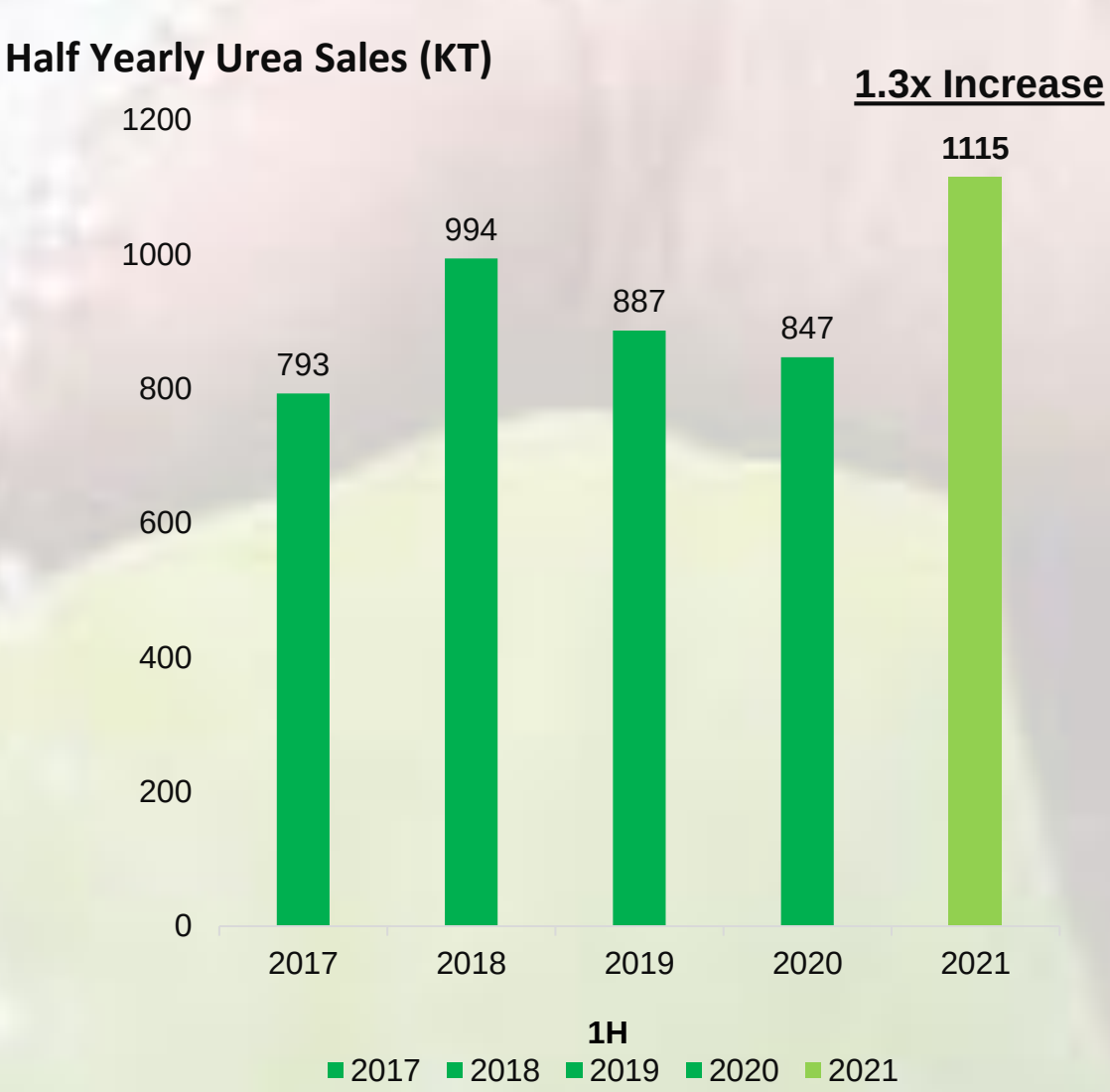
2.3x Increase in 1H PAT Vs 1H 2020

EFERT has announced a dividend of PKR 4.0/Share for 1H 2021 Vs the same in 1H 2020



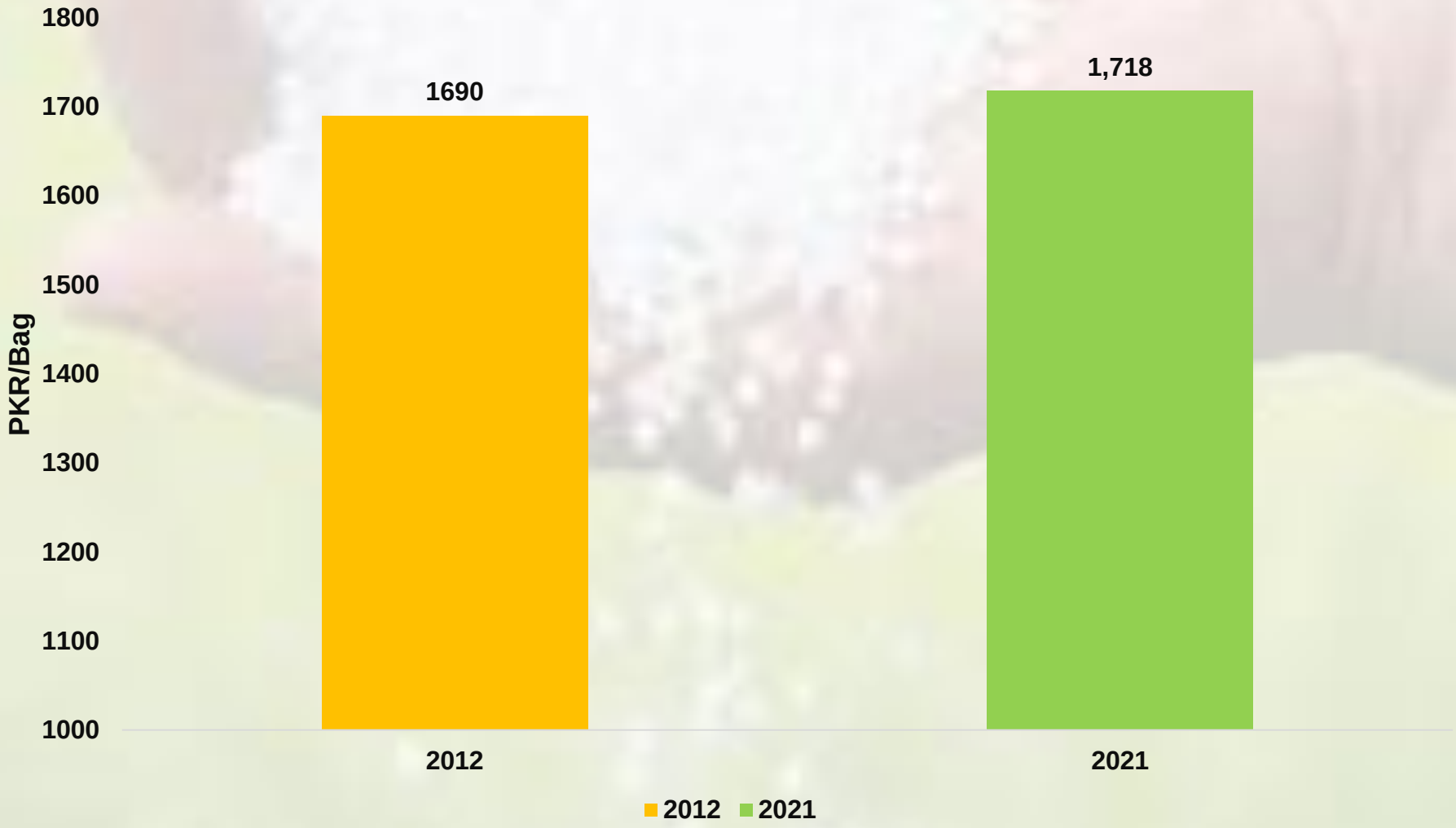
Highest Urea Sales for 1H





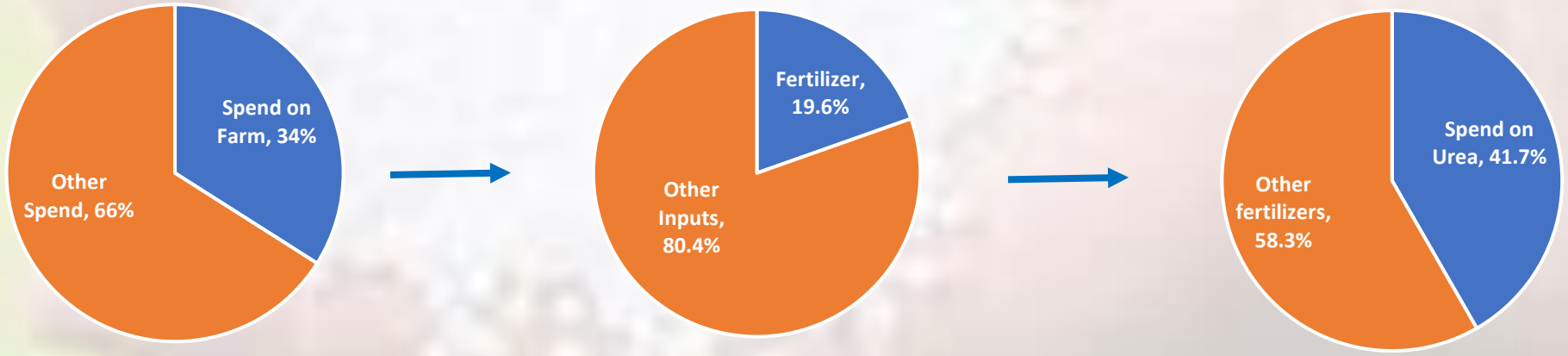
Agri Sector Performance

Urea prices have gone back to 2012 Level



Despite major rise in price index for all other sectors, **urea prices** have risen by only **1.6%** over the **past 8 years,** amidst inflation

Fertilizer Cost – Insignificant for Farmer Wallet



34% of total spent is on farm inputs

6.7% of total spent on fertilizers

2.8% of farmers wallet is spent on Urea

Spent on **Urea is a minor cost** out of total **household spent**

Government Policies Have Ensured Positive Momentum In Agri Sector

Earning from Wheat and Sugarcane increased by 52% & 46% respectively;, Rice can see a minor dip while OL for cotton is positive



Wheat	2019-20	2020-21P
Total expense (PKR)	35,682	40,059
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**	**31,551**

Wheat:

- Support price increased to Rs 1800/40 Kg from Rs 1400/40 Kg a year ago.
- Due to food dept restrictions on buying by Private Sector, Market price of grain at harvest time was Rs 1770/40 Kg which post harvest went up to Rs 2000/40 Kg.
- Earning improved by 52% in 2020-21 vs last year.
- Going forward wheat economics are expected to sustain.



Sugarcane	2019-20	2020-21E
Total expense (PKR)	88,885	93,275
Fertilizer Expense (PKR)	10,075	9,125
Yield (Maunds/Acre)	710	725
Cane Price (Rs/Maund)	210	250
Earning (PKR)	**60,200**	**88,000**

Sugarcane:

- During 2020-21, farm earning jumped by 46% vs last year due to better cane prices
- Support price was Rs 200/maund but due to shortage of cane average price was Rs 250/maund.
- Going forward, cane prices are expected to remain firm due to firm sugar prices and crop economics are expected to sustain.



Cotton	2020	2021P
Total expense (PKR)	46,295	53,864
Fertilizer Expense (PKR)	8,360	10,750
Yield (Maunds/Acre)	15	18
Phutti Price (Rs/Maund)	4,200	5,200
Earning (PKR)	**16,705**	**39,736**

Cotton:

- During 2020, Cotton crop faced production challenges due to seed quality, wet weather and pest pressure coupled with tight pesticide supply and productivity declined.
- Farm economics also dropped by 16.7% vs last year due to low yield.
- During 2021, better seed availability, dry weather and pesticide availability is expected to impact productivity and production positively
- Farm economics is expected to improve by 137% due to better yield and higher price.



Rice - Basmati	2020	2021P
Total expense (PKR)	42,547	47,511
Fertilizer Expense (PKR)	6,805	9,142
Paddy Yield (Maunds/Acre)	34	34
Paddy Price (Rs/Maund)	2,100	2,200
Earning (PKR)	**28,850**	**27,290**

Rice- Basmati:

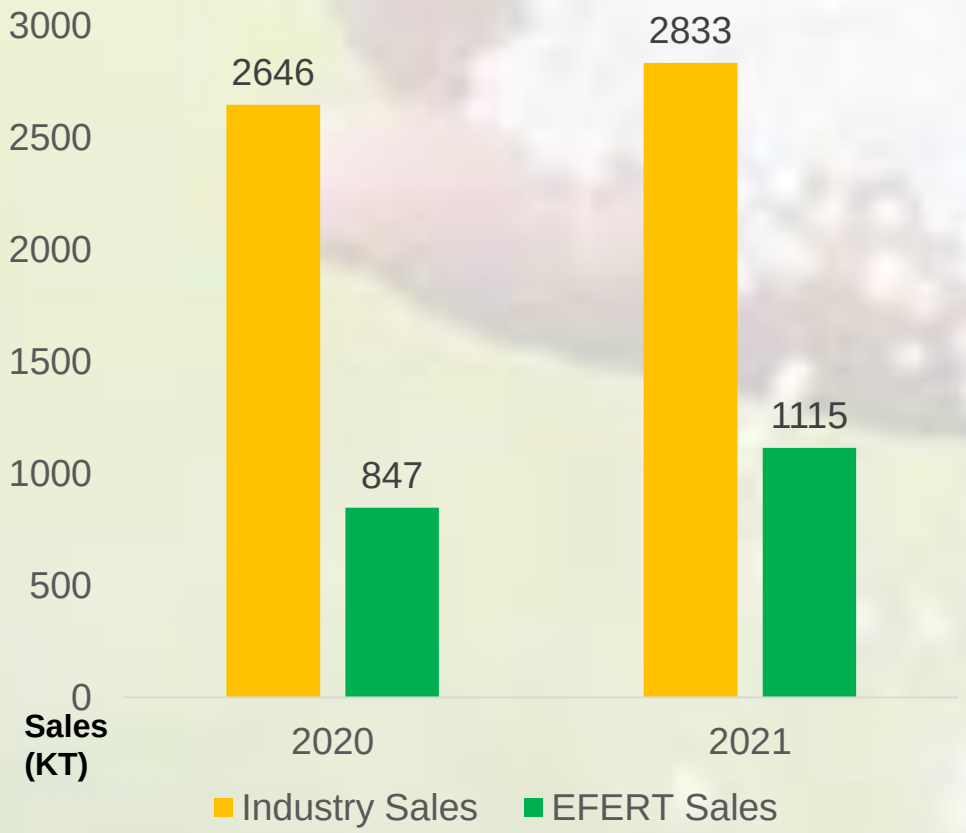
- During 2020, Yield improved due to good weather and water avails, prices remained stable, and earnings improved by 26%
- In 2021, Farm economics may drop by 5% due to increase in cost of inputs.

Following the momentum built over last year, **farm economics** continued to **improve** based on **better support prices** and improved **water availability**

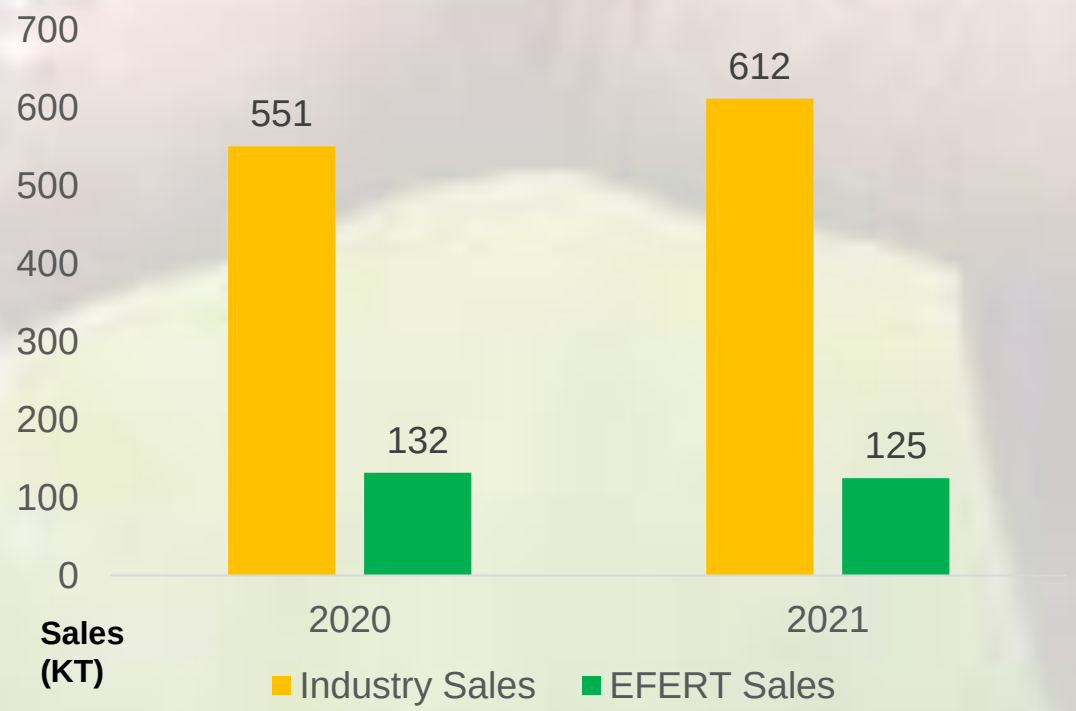
Industry
&
EFERT Business Performance

EFERT Urea sales Recorded Growth whereas DAP showed a minor decline Vs last year

Urea industry sales grew by only 1.1x in 1H 2021 vs 1H 2020



DAP market recorded a growth of 11% in 1H 2021 vs 1H 2020



Int DAP Price has risen by a higher proportion



International DAP prices have **increased** by **57%** in 1H 2021 whereas **local DAP prices** have **increased** only by **40%**

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

Industry Challenges

Tax Disallowances

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

Sales 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
- No further provision in 2021 by EFERT due to exemption

Sales Tax Disallowance

- **Dealer data** was **submitted** within the compliance date by **EFERT** and as a **best practice** we continue to submit data for **new dealers added** post the compliance date
- **73%** of EFERT's total sales are being made via registered dealers
- From April'21 onwards, EFERT **discontinued sales to unregistered dealers** exceeding PKR 100m/annum

Income tax disallowance (subject to maximum of 10% of total expenses) became **applicable** from **01 Oct 2020**
The minimum tax & withholding rates for dealers have been reduced from 0.75% and 0.7% to 0.25% respectively

Expiry of Concessionary Gas

Lack of clarity around end of concessionary gas would be the most notable challenge for the year

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 provision made*

Sales Tax Receivable

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

- Sales Tax receivable amount recorded for the **industry** & **EFERT** is c. **PKR 38Bn** & **PKR 4.4Bn** respectively

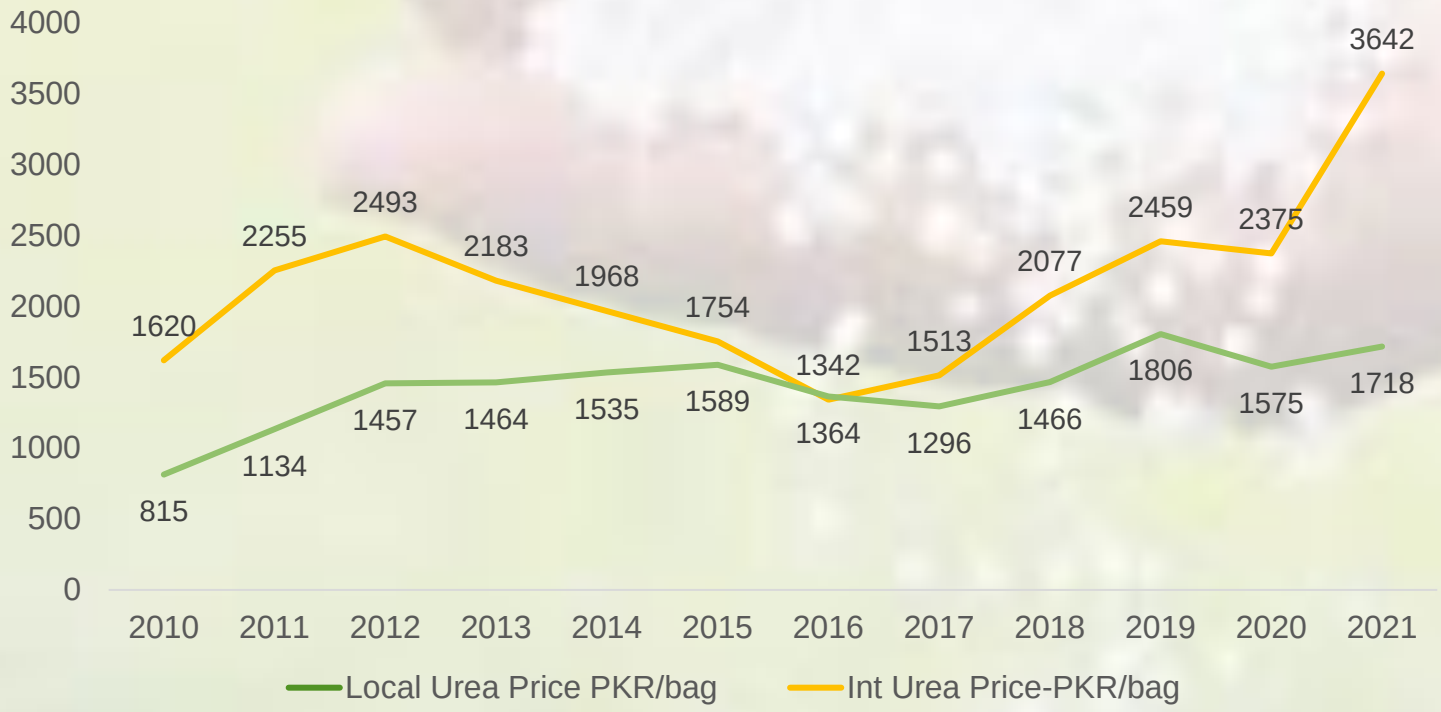
Subsidy ageing	PKR Bn
Dec 2016	0.04
Dec 2017	0.11
Dec 2018	0.18
Dec 2019	0.53
Dec 2020	2.96
EFERT Sales Tax Receivable* **(as of 30 June 2021)**	**4.42**

This is the cumulative net amount pending with government of Pakistan as of 30th June 2021 for EFERT

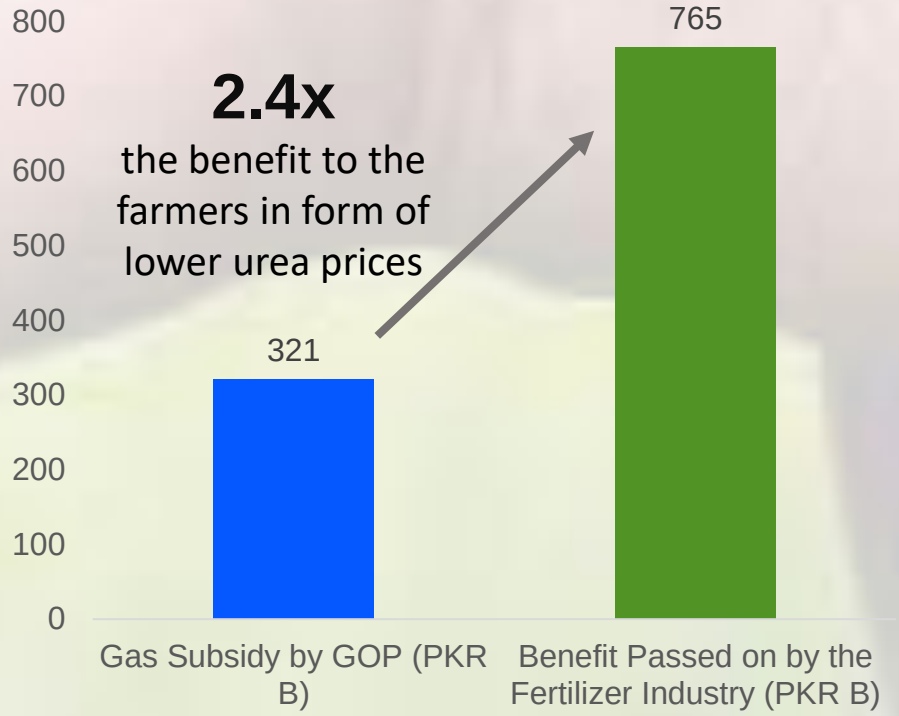
Special Items For Discussion

Subsidy Benefit Passed On To The Farmers

Comparison of Local Vs International Urea Price (PKR/Bag)



Farmer Benefit and Subsidy (2010-2021)



Even though **local urea prices** are at a **substantial discount** than **international urea prices** (**~53%** for 2021) , **subsidy benefit** of **2.4x** is still **passed** on to the farmers in the form of **lower urea prices**

International Urea Prices At A Premium Of 62%

FOB Price*
USD 473/T

CFR Price
USD 515/T

Landed Equivalent Price
PKR 4,546/Bag

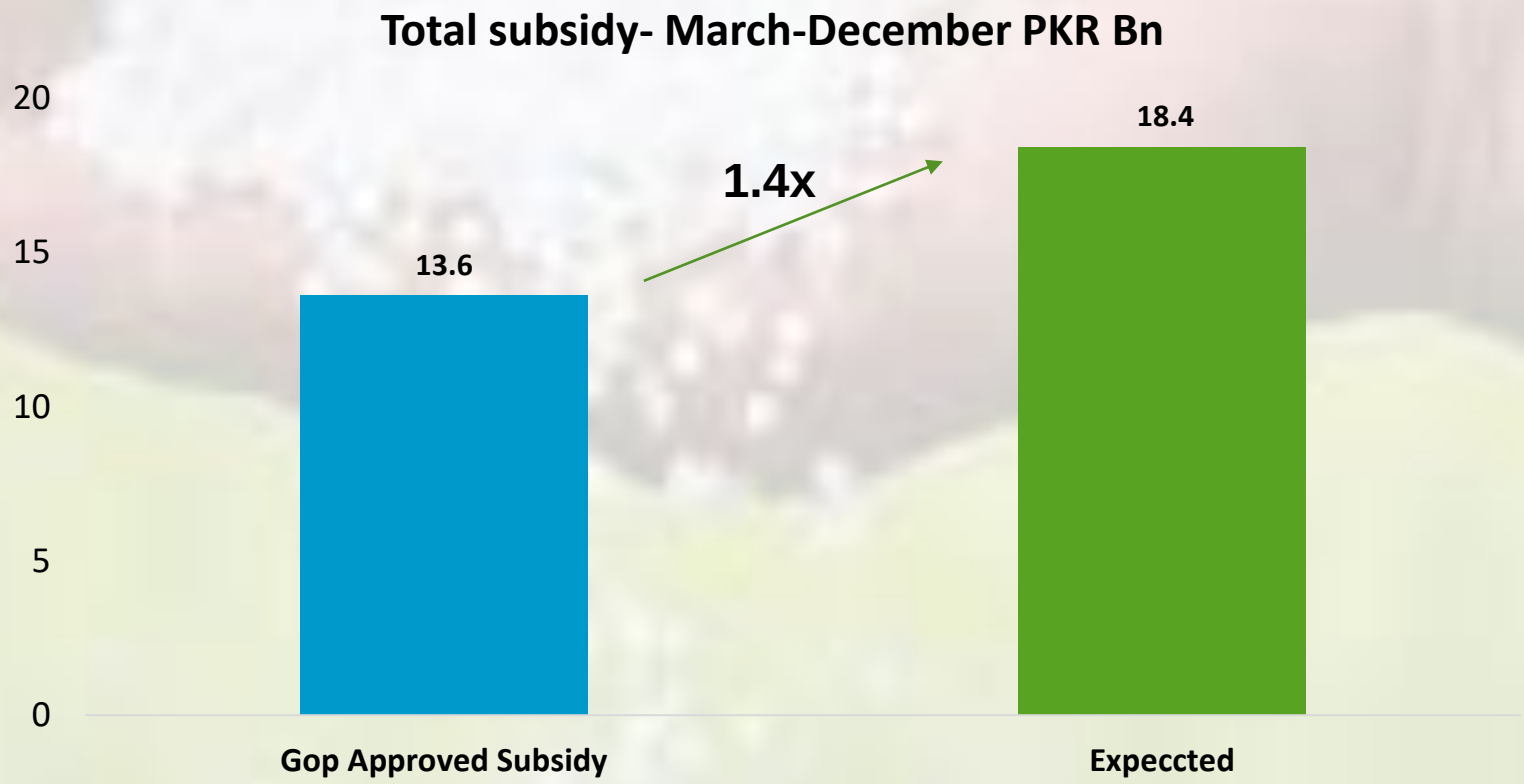
Domestic Discount on Urea
62%

Local Urea Price**
PKR 1,718/Bag

***Assumption**:*
FX Rate – 156.7
** Data Source: CRU weekly report average (2nd July, 2021)*
***EFERT Price*

RLNG Subsidy to Fertilizer Industry to increase to ~PKR 18.4Bn

RLNG subsidy is expected to rise to ~PKR **18.4Bn, (1.4x)** as compared to PKR **13.6Bn** approved by GOP



- From March till July, subsidy to RLNG players is estimated at **~PKR 7.6 Bn**

Assumptions:

- ***Subsidy for March-July calculated at OGRA notified rates.***
- ***For Aug-December, brent crude forecast of EIA of USD 72/BBL, slope of 13% and FX rate of 160 has been assumed***

Gas Circular Debt is growing – Extract from newspaper

- Gas circular Debt, based upon the difference in revenue and cost of SNGPL and SSGC, has grown up to PKR **600Bn.**
- SNGPL alone accounts for PKR **400Bn** deficit, where PKR 300Bn is tariff adjustment and PKR 100Bn is RLNG diversion cost to domestic consumers.
- From 2015 to date the annual domestic gas supply has **reduced to 2 bcf from 2.7 bcf** given the depleting fields and no sizeable new discoveries. Hence, reliance on expensive RLNG is increasing.
- The country is fast moving from a gas producing country to a gas importing one, and the pricing must reflect that fundamental change
- The curb this deficit, consumers should be charged **Weighted average cost of Gas (WACOG)**



Source: https://www.brecorder.com/news/40105338

Exports Allowed for Excess Urea Capacity



The government should allow export of excess urea of 0.9 MT produced with non-Fertilizer Policy 2001 gases (after ensuring adequate safety stocks and/or plant turnaround headroom)

Export of Urea – An Avenue for FX & Tax Inflows

- **Surplus Urea** of **0.9 M. Tons** should be **allowed** to **export**
- **Urea exports** could potentially **alleviate** the **burden** of operating **LNG plants**



Exports of surplus urea can potentially generate **USD 437 Mn (PKR 70 Bn)****

+

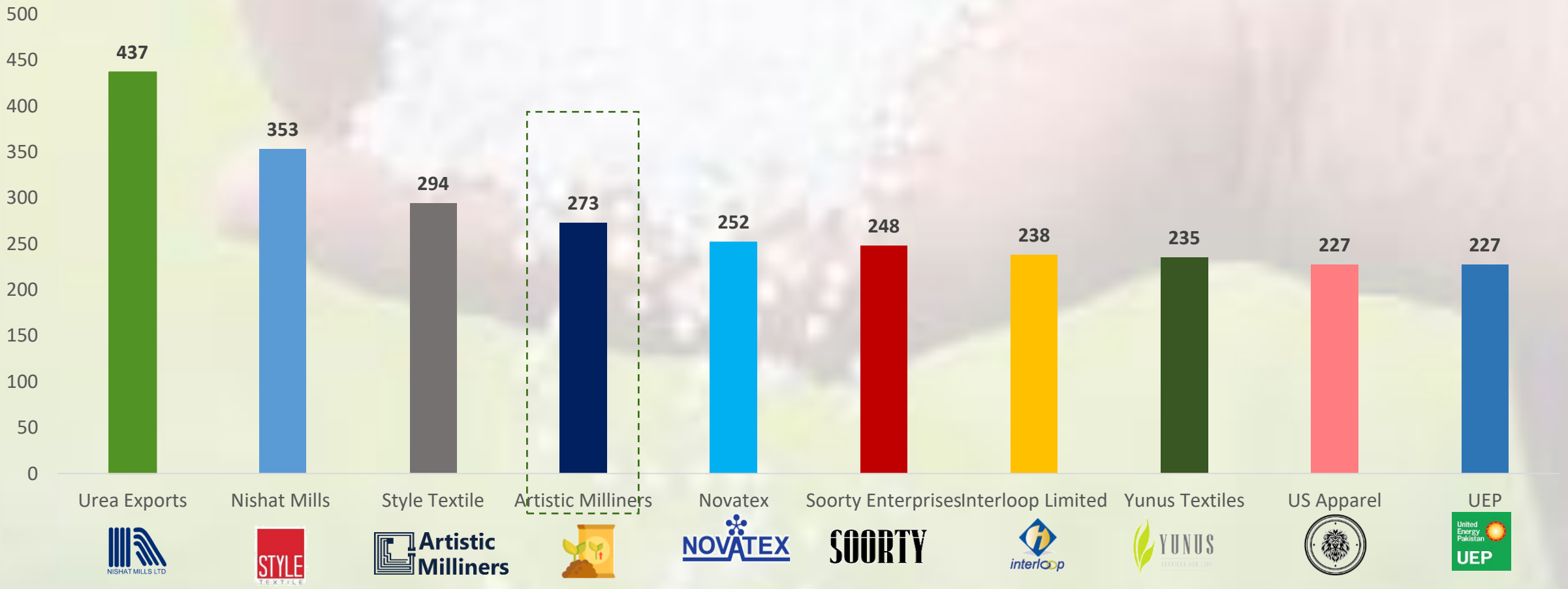


Potential Government Income Tax Revenue*** of **USD 4.4 Mn (PKR 700 Mn)**

***Urea export price at spot July 2021 International price FOB of USD 485/ton*
**** Tax Rate Assumed at 1% of Revenue*
***** Exchange rate assumed @ PKR 160*

This can be **achieved without** making **any additional investments**

Urea - Potential To Be The Top Exporter



Note: Export data for other companies is of FY 19

Urea export: At spot July 2021 International price FOB of USD 485/ton

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



4 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


1,500
students
enrolled

Doing Good While Doing Well

Healthcare

Free of cost anti-rabies treatment facility was commissioned for the community during June'21 and has already attended to around **40 cases**

PKR 7.2Mn

Artificial Limbs

Support was extended to rescue the passengers of train accident near Ghotki which was also appreciated by Pakistan Railway

PKR 0.9Mn

Community Welfare

Distribution of **300 ration bags** to widows and needy in Ramazan

PKR 1.5Mn

Awards Received

We continue to commit to health and safety of our employees and the society we operate in

No. of Awards 2019



23

No. of Awards 2020



40

No. of Awards Q1 2021



12

8 awards for CSR
4 awards for safety

Awards - Health , Safety & Environment

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

Future Outlook

Future Outlook

Implementation of Agri Support Program announced by GOP (PKR 37B)

Improve crop support prices & water availability

Reduction of urea prices to 2012 level

PKR 12B announced for Agri. Development + launch of Kissan card to provide direct subsidy

Robust Agronomic Demand


together we grow
Pakistan

Back-up

Significant Sales Tax Refunds

PKR Billion

	Company Name	GST Refunds
1	Fauji Fertilizer Company	13.63
2	Fauji Fertilizer Bin Qasim Limited	8.80
3	Engro Fertilizers Limited	3.82
4	EFERT Agritrade Private Limited	0.60
5	Fatima Fertilizer Limited	7.07
6	Pakarab Fertilizer	2.56
7	Fatimafert Limited	0.40
8	Agritech Limited	1.58
	Total	***38.47**

The massive mismatch in input / output GST is leading to perpetual piling up of refunds ~

PKR **7.8 Billion**

accumulation of refunds each year

Industry is bearing significant cashflow burden

**Assessed refunds as of June 2021*