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AGL PA: Destiny tied to WACOG

The Agritech Limited plant relies on RLNG supplied through the SNGPL network. However, since 2011, it has been grappling with severe gas curtailment issues, leading to a substantial financial strain and losses for the company. However, the stock has recorded a decent rally in last couple of weeks, witnessing a return of ~65% FYTD. The recent stock performance can be linked to the expectation of the WACOG mechanism's forthcoming implementation, which could potentially lead to more efficient plant operations. Furthermore, the company informed the exchange in Feb'22 about the interest of three potential buyers who are considering acquiring a stake in the company. We believe that implementation of WACOG mechanism will catalyze this transaction as this will ensure a consistent and uninterrupted gas supply for the company, ultimately leading to improved operational performance.

Furthermore, long-awaited rehabilitation scheme was recently sanctioned in Jul'22 by LHC to restructure its existing over-due long-term debts, towards creditors and related markup as of Dec'13.

To highlight, in CY22, there was a substantial improvement in gas inflow to AGL fertilizer plant. It achieved its longest continuous operational period of 351 days resulting in an impressive 82% capacity utilization. Moreover, in 2QCY23 company recorded stellar growth of 47% YoY in revenues to clock in at PKR4.7bn vs. PKR3.2bn SPLY. Gross margins for the quarter clock in at 19% vs. 10% SPLY. Wherein the bottom-line was mainly dented by higher finance charge resulting in LPS of PKR2.43.

Company Introduction

AGL's principal business is the production and sale of Urea and Granular Single Super Phosphate ("GSSP") fertilizer, having capacities of 433K tons and 81K tons, respectively. The urea plant is located at Iskanderabad, District Mianwali and SSP plant at Hattar Road, Haripur. The company had been unable to run its plants owing to severe gas curtailment since 2011, which led to loan default and created going concern issues for the company. The accumulated losses as at Jun'23 amounted to PKR28.1bn.

Ongoing debt restructuring

Severe gas shortages not only caused significant losses for the company but also made it impossible to meet its debt and interest obligations. The reduced production of urea due to gas constraints leading to lower cash flows, resulting in delays in servicing the company's debt and the accumulation of interest, further burdening its financial situation.

In Dec'10, the company underwent its first round of debt restructuring, which was successfully completed. However, the positive impact of this restructuring was nullified by ongoing gas load shedding and curtailment, which continued to affect the company negatively.

Agritech Limited

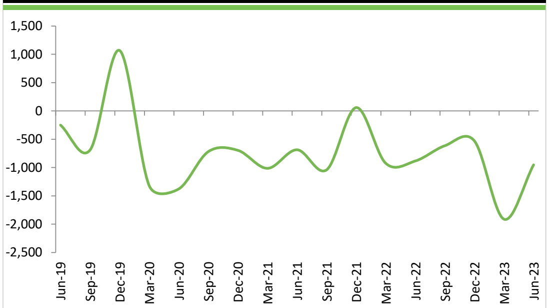
AGRITECH

Current Price	PKR/sh	7.1
Market cap	PKR bn	2.8
Market cap	US$ m	9.3
Free Float Market cap	US$ m	5.1
30-day Avg. turnover	m Shares	1.83
30-day Avg. turnover	PKR m	12.8
52 week range	PKR/sh	3.9 - 7.8
Shares Outstanding	m	392.4
Free float	%	55%
Bloomberg Ticker		AGL PA

Financials (PKR m)	CY20	CY21	CY22
Sales	5,700	10,101	17,296
Gross Profit	(1,173)	410	2,122
Operating Profit	(1,719)	(313)	1,002
Finacnial Charges	(2,945)	(2,805)	(4,285)
Profit Before Tax	(4,487)	(3,018)	(3,216)
Profit after Tax	(4,297)	(2,681)	(2,953)
Key Ratios	**CY20**	**CY21**	**CY22**
EPS	(11.0)	(6.8)	(7.5)
Gross margin	-21%	4%	12%
P/S	0.5	0.3	0.2
ROE	-53%	-50%	-25%

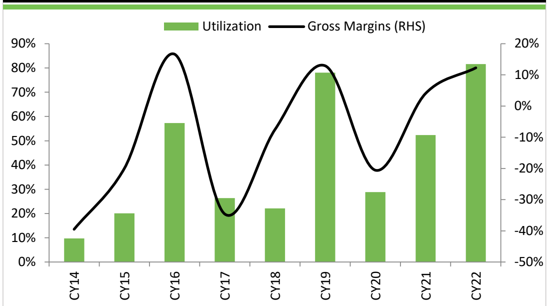
Source: Company Accounts, Insight Research

AGL: Profit after tax (PKRmn)



Source: Company Accounts, Insight Research

AGL: Gross margins vs. Urea plant utilization



Source: Company Accounts, Insight Research

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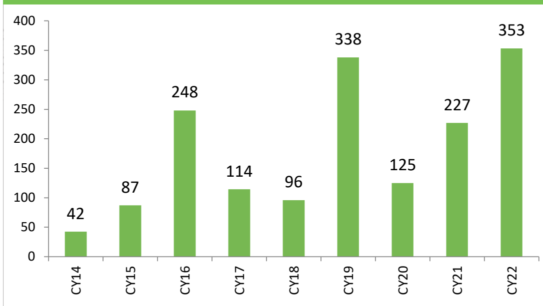
Moving forward, in FY12, the company successfully completed its second round of debt restructuring. This allowed the company an additional grace period of one year to repay its long-term debts. Additionally, during this period, the company converted PKR1.17bn in interest payments into PPTFCs and PKR1.59bn in interest was settled through the proceeds from the issuance of preference shares.

Despite these efforts, the challenges persisted. Therefore, in Nov'13, the Board approved a Rehabilitation Plan, which was subsequently endorsed by shareholders in an Extraordinary General Meeting held in Dec'13. In 2015, the company secured the necessary consents from its class of lenders and initiated the process under the Companies Ordinance 1984.

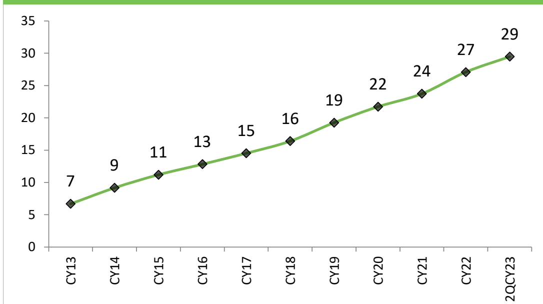
The Rehabilitation Plan was filed with the Lahore High Court (LHC) in June 2016 for enforcement. After a long-awaited process, the LHC recently sanctioned the rehabilitation scheme in Jul'22. This scheme aims to restructure the company's outstanding long-term debts, amounting to PKR19.44bn through the issuance of preference shares and the related markup of PKR6.07bn as of Dec'13 to be settled through given various option. Option one include application of upfront CFAD's as settlement of overdue markup as of CY13 while other option is for the issuance of zero coupon TFC payable at the end of FY26 as bullet payment for the accrued markup as of Dec'2013. To implement this scheme, the company has increased its authorized paid-up capital to PKR35bn and had already disbursed cash payments of PKR1.2bn to the lenders.

AGL Urea production (KT)



Source: Company Accounts, Insight Research

AGL: Accrued Markup (PKRbn)



Source: Company Accounts, Insight Research

Indigenous gas to ramp up urea production

The utilization of the company's urea plant, a significant contributor to its cash flow, dropped to a mere 20% in CY15 due to a severe shortage of gas in the SNGPL network. However, there's some positive news on the horizon. The Economic Coordination Committee (ECC) has granted approval to supply indigenous gas to AGL's urea plants until May'23, and this has been further extended to Aug'23. As per our channel checks, the plant is operational post August and gas supply has not been curtailed amid urea shortage. This development is expected to increase capacity utilization of the plant. In the 1QCY23, the plant faced a gas curtailment lasting for three months which was restored from the last week of Mar'23 resulting in higher margins in 2QCY23 amid higher capacity utilization.

Enhancing Acquisition Prospects

Company issued a notice to PSX in Feb'22 disclosing that three prospective buyers are interested to acquire stake in the company, however, no further development have been realized uptill now. We believe that with the continuation of consistent gas supply amid implementation of WACOG, AGL's plant would run on higher operating rate which makes the plant more attractive to other big fertilizer players, increasing the probability of acquisition of AGL. We anticipate that WACOG implementation is expected soon amid mounting pressures from IMF to resolve issues of energy chain. The WACOG bill aims to establish a uniform rate of supply for gas consumers, improving overall cashflows of the energy sector.

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
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Frequently Used Acronyms

TP	Target Price	**DCF**	Discounted Cash Flows	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DDM**	Dividend Discount Model
SOTP	Sum of the Parts	**P/E**	Price to Earnings ratio	**P/Bv**	Price to Book ratio
P/S	Price to Sales	**EVA**	Economic Valued Added	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**DY**	Dividend Yield
ROE	Return on Equity	**ROA**	Return on Assets	**CAGR**	Compounded Annual Growth Rate

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