

## Engro Fertilizers Limited

### Result Preview

PSX: EFERT Bloomberg: EFERT.PA Reuters: ENGR.PSX

Pakistan Research

## EFERT: 2QCY24 EPS likely to clock in at PKR 2.68; DPS PKR 3.00

- EFERT's BoD meeting is scheduled on 30<sup>th</sup> July, 2024 to consider the financial accounts for 2QCY24. We expect the company to report a consolidated EPS of PKR 2.68 for 2QCY24 against a consolidated EPS of PKR 0.79 SPLY. Cumulative EPS for 1HCY24 is estimated to record at PKR 10.75, up 2.6x YoY. Along with the result, EFERT is expected to announce an interim cash dividend of PKR 3.00/share for the second quarter, taking 1HCY24 dividend to PKR 11.00/share.
- Topline of the company is anticipated to increase by 3% YoY to PKR 39.6bn due to higher fertilizer prices, improved DAP offtake (up 16% YoY) and higher NP+NPK offtake, up 81% YoY. Urea offtake for the quarter declined by 36% due to turnaround of EnVen Plant which remained non-operational for ~55 days.
- Gross margin for the 2Q will likely settle at 24% compared to 30% SPLY because of elevated repair and maintenance expenditure and turnaround of EnVen plant, which has higher efficiency.
- Distribution & Admin expense is likely to increase by 3% YoY to PKR 3.1bn on back of higher fuel prices and inflationary pressures.
- For 2QCY24, finance cost is projected to decrease by 26% YoY to PKR 518mn, due to the lower borrowings.
- With continuation of super-tax, the company is expected to record an ETR of 39% for 2QCY24.
- We have a 'HOLD' recommendation on EFERT. Our Dec-24 PT of PKR 165/share provides a downside of -4% while the stock is offering a dividend yield of 11.7%.

#### Key Data

PSX Ticker	EFERT
Target Price (PKR)	165
Current Price (PKR)	171
Upside/(Downside) (%)	-4%
Dividend Yield (%)	11.7%
Total Return (%)	8%
12-month High (PKR)	177
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	228,336
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
Net Sales	38,375	39,562	3%	82,366	113,346	38%
Cost of Sales	26,951	29,994	11%	60,167	81,260	35%
<b>Gross Profit</b>	<b>11,424</b>	<b>9,568</b>	<b>-16%</b>	<b>22,199</b>	<b>32,086</b>	<b>45%</b>
Distri. & Admin. Exp.	3,043	3,137	3%	6,065	8,631	42%
Other income	447	435	-3%	1,164	1,721	48%
Other charges	670	550	-18%	1,281	1,692	32%
Finance cost	702	518	-26%	1,138	678	-40%
Other gains/(losses)	(328)	58	-118%	(961)	116	-112%
<b>Profit Before Tax</b>	<b>7,128</b>	<b>5,856</b>	<b>-18%</b>	<b>13,919</b>	<b>22,922</b>	<b>65%</b>
Taxation	6,069	2,284	-62%	8,455	8,566	1%
<b>Net Income</b>	<b>1,060</b>	<b>3,572</b>	<b>3.4x</b>	<b>5,464</b>	<b>14,356</b>	<b>163%</b>
EPS	0.79	2.68	-	4.09	10.75	-
DPS	3.00	3.00	-	6.50	11.00	-

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	15.8	12.0	19.6	23.3	29.9	29.1
EPS Growth	16.3%	-24.1%	63.7%	18.7%	28.5%	-2.8%
DPS	16.5	13.5	20.5	20.0	25.5	26.0
PER	10.8	14.3	8.7	7.3	5.7	5.9
Dividend Yield	9.6%	7.9%	12.0%	11.7%	14.9%	15.2%
EV/EBITDA	6.4	6.9	3.5	4.3	3.4	3.4
P/B	4.8	5.1	4.8	4.7	4.2	3.9
ROE	44.8%	35.5%	54.7%	64.4%	73.7%	66.6%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Engro Fertilizers Limited (EFERT) has been computed using Free cash flow to firm (FCFF) method. We have used a risk-free rate of 15.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 21.0% and weighted average cost of capital of 18.1%.

### Investment Thesis

We have a 'HOLD' recommendation on the stock based on our Dec-24 PT of 165/share. Our PT provides an downside of -4% along with a dividend yield of 11.7%.

### Risks

Key downside risks to our investments thesis are: 1) gas supply curtailment, 2) lower than anticipated fertilizer demand, and 3) lower than expected fertilizer prices.

### Company Description

Engro Fertilizers Limited is engaged in manufacturing, purchasing and marketing of fertilizers. Engro Fertilizers Limited is a wholly owned subsidiary of Engro Corporation Limited.

### Financial Highlights - EFERT

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net sales	132,363	157,017	223,705	258,435	290,974	294,688
Cost of sales	88,289	114,170	151,407	185,598	196,457	200,245
<b>Gross Profit</b>	<b>44,074</b>	<b>42,847</b>	<b>72,297</b>	<b>72,837</b>	<b>94,517</b>	<b>94,443</b>
SG & A	10,430	12,103	17,060	18,682	19,259	19,967
<b>Operating Profit</b>	<b>33,644</b>	<b>30,745</b>	<b>55,238</b>	<b>54,155</b>	<b>75,258</b>	<b>74,476</b>
Other income	1,790	2,325	3,714	2,404	1,495	1,374
Other charges	2,641	2,524	4,369	3,821	5,673	5,576
Finance cost	1,602	2,622	1,911	2,615	5,592	6,625
<b>Profit before tax</b>	<b>29,890</b>	<b>26,562</b>	<b>49,693</b>	<b>50,354</b>	<b>65,488</b>	<b>63,648</b>
Taxation	8,798	10,558	23,502	19,264	25,540	24,823
<b>Profit after tax</b>	<b>21,093</b>	<b>16,003</b>	<b>26,191</b>	<b>31,090</b>	<b>39,948</b>	<b>38,826</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	73,031	77,880	78,440	91,571	101,116	99,631
Other LT assets	5,362	7,699	5,596	5,663	5,650	5,639
Non-Current Assets	78,394	85,579	84,036	97,233	106,766	105,271
Current assets	54,425	59,835	75,281	78,205	81,447	83,189
<b>Total Assets</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>176,964</b>	<b>189,739</b>	<b>189,985</b>
Non-Current liabilities	30,924	17,438	14,627	30,314	33,928	31,671
Current liabilities	54,808	82,922	98,313	98,369	101,632	100,028
<b>Total Liabilities</b>	<b>85,732</b>	<b>100,360</b>	<b>112,940</b>	<b>128,683</b>	<b>135,561</b>	<b>131,699</b>
Equity	47,087	45,053	47,903	48,281	54,178	58,286
<b>Total Equity &amp; liabilities</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>176,964</b>	<b>189,739</b>	<b>189,985</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,093	16,003	26,191	31,090	39,948	38,826
Non-cash Charges	3,029	3,438	4,070	4,080	4,730	5,201
<b>Operating Cash flows</b>	<b>18,882</b>	<b>31,441</b>	<b>61,055</b>	<b>4,821</b>	<b>28,996</b>	<b>39,645</b>
<b>FCFF</b>	<b>9,686</b>	<b>24,734</b>	<b>57,431</b>	<b>-10,776</b>	<b>18,132</b>	<b>39,970</b>
Net borrowings	-1,689	-9,121	-17,468	27,489	14,530	-368
<b>FCFE</b>	<b>6,867</b>	<b>14,034</b>	<b>38,956</b>	<b>15,099</b>	<b>29,250</b>	<b>35,560</b>
Net change in cash	-2,345	1,567	1,220	-1,175	13	1,083
<b>Closing cash</b>	<b>1,267</b>	<b>2,834</b>	<b>4,054</b>	<b>2,879</b>	<b>2,891</b>	<b>3,975</b>

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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