

Engro Fertilizers Limited

Result Preview

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

Pakistan Research

EFERT: 4QCY23 EPS likely to clock in at PKR 8.15; DPS PKR 8.00

- EFERT is scheduled to announce its 4QCY23 financial result on 15th February, 2023. Wherein, we expect the company to report a consolidated EPS of PKR 8.15 for 4QCY23 against a consolidated EPS of PKR 4.80 during 4QCY22. This would take the cumulative EPS for CY23 to PKR 19.42, up 62% YoY. Along with the result, we expect the company to announce an interim cash dividend of PKR 8.00/share for the quarter, taking CY23 pay out to PKR 21.80/share.
- Topline of the company is anticipated to increase by 60% YoY to PKR 70.2bn on the back of higher fertilizer offtake and elevated Urea prices. Company's Urea and DAP offtake for the quarter is expected to increase by 45% (600k tons) and 15% (116k tons) on YoY basis. While, Urea prices for the 4QCY23 averaged at PKR 3,952/bag up by 61% YoY.
- Subsequently, gross margin for the 4QCY23 is likely to settle at 37.0% compared to 22.9% SPLY.
- Distribution & Admin expense is expected to increase by 56% YoY in 4QCY23 to PKR 6.5bn on the back of higher offtake and increased fuel prices.
- Finance cost for the quarter is projected to decline by 48% YoY to PKR 508mn, due to a substantial decline in short-term borrowing.
- With the increase in super-tax rate, company is expected to record a tax expense of PKR 7.0bn with an effective-tax rate of 39.0% for 4QCY23.
- We have a 'Hold' recommendation on EFERT. Our Dec-24 PT of PKR 117/share provides a downside of 3% while the stock is offering a dividend yield of 16.1%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	117
Current Price (PKR)	121
Upside/(Downside) (%)	-3%
Dividend Yield (%)	16%
Total Return (%)	13%
12-month High (PKR)	129
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	162,079
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates

	4QCY22	4QCY23E	YoY	CY22	CY23E	YoY
Net Sales	46,141	70,208	52%	157,017	218,738	39%
Cost of Sales	35,598	44,240	24%	114,170	149,582	31%
Gross Profit	10,543	25,968	146%	42,847	69,156	61%
Dist. & Admin. Expense	4,195	6,530	56%	12,103	16,783	39%
Other Income	1,021	678	-34%	2,325	2,578	11%
Other Charges	520	1,677	223%	2,524	4,131	64%
Finance cost	982	508	-48%	2,622	2,145	-18%
Other gains / (losses/GIDC)	(347)	(80)	-77%	(1,363)	(1,121)	-18%
Profit Before Tax	5,521	17,850	223%	26,562	47,554	79%
Taxation	(888)	6,962	NM	10,558	21,621	105%
Net Income	6,409	10,889	70%	16,003	25,933	62%
EPS	4.80	8.15	70%	11.98	19.42	62%
DPS	5.00	8.00		13.50	21.80	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
EPS	13.6	15.8	12.0	19.4	24.3	23.5
EPS growth	7.5%	16.3%	-24.1%	62.0%	25.2%	-3.2%
DPS	13.0	16.5	13.5	21.9	19.5	19.0
PER	8.9	7.7	10.1	6.2	5.0	5.2
Dividend Yield	10.7%	13.6%	11.1%	18.0%	16.1%	15.7%
EV/EBITDA	5.3	4.6	5.0	2.7	2.7	3.0
P/B	3.5	3.4	3.6	3.9	3.4	3.0
ROE	38.8%	44.8%	35.5%	62.1%	67.4%	57.9%

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 18.8%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 117/share. Our PT provides downside of 3% along with a dividend yield of 16.1%. Our investment case on EFERT is based on 1) higher fertilizer prices, 2) volumes sustainability and 4) attractive dividend yield.

Risks

Key downside risks to our investments thesis are: 1) gas supply curtailment, 2) higher than expected increase in gas prices, 3) lower than anticipated fertilizer demand, and 4) 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)						
	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
Net sales	105,846	132,363	157,017	218,738	223,748	240,545
Cost of sales	71,591	88,289	114,170	149,582	149,452	166,182
Gross Profit	34,255	44,074	42,847	69,156	74,296	74,362
SG & A	10,365	10,430	12,103	16,783	16,987	15,230
Operating Profit	23,890	33,644	30,745	52,373	57,309	59,133
Other income	1,667	1,790	2,325	2,578	3,631	1,197
Other charges	1,905	2,641	2,524	4,131	4,179	3,880
Finance cost	3,236	1,602	2,622	2,145	3,484	4,901
Profit before tax	21,299	29,890	26,562	47,554	53,232	51,548
Taxation	3,165	8,798	10,558	21,621	20,761	20,104
Profit after tax	18,134	21,093	16,003	25,933	32,472	31,444

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
PPE	65,734	73,031	77,880	81,439	94,672	99,659
Other LT assets	5,247	5,362	7,699	7,681	7,665	7,652
Non-Current Assets	70,981	78,394	85,579	89,119	102,337	107,311
Current assets	60,733	54,425	59,835	79,781	81,073	67,861
Total Assets	131,713	132,818	145,413	168,900	183,411	175,172
Non-Current liabilities	35,975	30,924	17,438	20,603	31,196	35,630
Current liabilities	49,007	54,808	82,922	106,518	104,002	85,256
Total Liabilities	84,983	85,732	100,360	127,121	135,198	120,885
Equity	46,731	47,087	45,053	41,780	48,213	54,287
Total Equity & liabilities	131,713	132,818	145,413	168,900	183,411	175,172

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
Net Income	18,134	21,093	16,003	25,933	32,472	31,444
Non cash Charges	5,343	3,029	3,438	3,548	3,698	4,266
Operating Cash flows	38,969	18,882	31,441	57,658	28,656	9,641
FCFF	36,572	9,686	24,734	51,721	13,850	3,378
Net borrowings	2,315	-1,689	-9,121	585	11,666	6,304
FCFE	36,132	6,867	14,034	51,136	23,391	6,693
Net change in cash	198	-2,345	1,567	1,833	-1,159	9,598
Closing cash	3,611	1,267	2,834	4,667	3,508	13,106

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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