

## Engro Fertilizers Limited

### Result Review & Key Takeaways

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

Pakistan Research

## EFERT: 1QCY22 Result Review & Analyst Briefing Takeaways

- EFERT announced its 1QCY22 financial results on April 19<sup>th</sup>, wherein the company reported consolidated net earnings of PKR 4.13/share, down 4.0% YoY. The result was slightly higher than our expectation due to better than expected margins on trading portfolio (DAP business). Along with the result, the company also announced dividend of PKR 5.5/share. The dividend was also higher than our expectation and market consensus.
- Topline of the company increased 25% YoY to PKR 36.8bn despite the fact that Urea and DAP offtake declined 9% YoY and 2% YoY during 1QCY22. This is due to significant rise in DAP prices by 96% YoY.
- Company's gross margins declined significantly to 29.5%, down 10ppts YoY during 1QCY22 due to suspension of concessionary gas to the new plant and costlier gas on PP12.
- Industry Urea offtake witnessed an uptick of 17% YoY to 1.6mn tons during 1QCY22. The company highlighted that as per the agronomics, local urea demand has only increased by 2% YoY, however, the management was of the view that there is a strong probability of cross border movement of urea due to high delta between international and local prices (i.e., 9,823/bag). Moreover, farmers are consuming more urea as substitute of DAP due to price disparity.
- Currently, both Urea plants are operating at maximum capacity and company has plan to perform BMR activities on old plant in 2HCY22 for 50-60 days.
- We have 'HOLD' recommendation on EFERT. Our Dec-22 PT of PKR 85/share provides a downside of 11.5% while the stock is offering dividend yield of 14.0%.

#### Key Data

PSX Ticker	EFERT
Target Price (PKR)	85
Current Price (PKR)	96
Upside/(Downside) (%)	-11.5%
Dividend Yield (%)	+14.0%
Total Return (%)	+ 2.5%
12-month High (PKR)	96
12-month Low (PKR)	63
Outstanding Shares (mn)	1,335.29
Market Cap (PKR mn)	128,536
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY21	1QCY22	YoY
Net Sales	29,444	36,813	25%
Cost of Sales	17,886	25,952	45%
<b>Gross Profit</b>	<b>11,558</b>	<b>10,861</b>	<b>-6%</b>
Distri. & Admin. Exp.	2,239	2,464	10%
Other Income	479	511	7%
Other Charges	672	449	-33%
Finance cost	269	475	76%
Other gains / (losses)	(196)	(312)	59%
<b>Profit Before Tax</b>	<b>8,660</b>	<b>7,673</b>	<b>-11%</b>
Taxation	2,919	2,162	-26%
<b>Net Income</b>	<b>5,741</b>	<b>5,511</b>	<b>-4%</b>
EPS	4.30	4.13	-4%
DPS	4.00	5.50	38%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	12.63	13.58	15.80	17.15	17.64	17.36
EPS Growth	-3%	7%	16%	9%	3%	-2%
DPS	13.00	13.00	16.50	13.50	14.00	14.00
PER	7.6	7.1	6.1	5.6	5.5	5.5
Dividend Yield	13.5%	13.5%	17.1%	14.0%	14.5%	14.5%
EV/EBITDA	4.5	5.1	4.1	3.7	3.6	3.6
P/B	3.0	2.8	2.7	2.5	2.3	2.1
ROE	39.0%	38.8%	44.8%	44.1%	41.5%	37.8%

Source: Company Accounts, Akseer Research

Muhammad Atif  
[muhammad.atif@alphacapital.com.pk](mailto:muhammad.atif@alphacapital.com.pk)

### Valuation Basis

Our PT for Engro Fertilizers Limited (EFERT) has been computed using Free cash flow to equity (FCFE) method. We have used a risk-free rate of 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

### Investment Thesis

We have a 'HOLD' recommendation on the stock based on our PT of 85/share. Our PT provides an downside of 11.5% along with a dividend yield of 14.0%.

### 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net sales	121,355	105,846	132,363	144,607	130,570	136,735
Cost of sales	81,815	71,591	88,289	97,659	82,303	88,216
<b>Gross Profit</b>	<b>39,540</b>	<b>34,255</b>	<b>44,074</b>	<b>46,949</b>	<b>48,268</b>	<b>48,520</b>
SG & A	9,985	10,365	10,430	10,549	10,870	11,123
<b>Operating Profit</b>	<b>29,555</b>	<b>23,890</b>	<b>33,644</b>	<b>36,400</b>	<b>37,397</b>	<b>37,397</b>
Other income	4,352	1,667	1,790	1,701	1,612	1,099
Other charges	2,623	1,905	2,641	2,447	2,858	2,842
Finance cost	3,887	3,236	1,602	2,242	2,713	2,959
<b>Profit before tax</b>	<b>27,398</b>	<b>21,299</b>	<b>29,890</b>	<b>32,165</b>	<b>33,177</b>	<b>32,651</b>
Taxation	10,526	3,165	8,798	9,264	9,621	9,469
<b>Profit after tax</b>	<b>16,871</b>	<b>18,134</b>	<b>21,093</b>	<b>22,901</b>	<b>23,556</b>	<b>23,182</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	65,924	65,734	73,031	75,838	78,753	80,204
Other LT assets	5,235	5,247	5,362	5,388	5,413	5,438
Non-Current Assets	71,159	70,981	78,394	81,226	84,166	85,642
Current assets	55,888	60,733	54,425	56,505	47,935	45,497
<b>Total Assets</b>	<b>127,047</b>	<b>131,713</b>	<b>132,818</b>	<b>137,731</b>	<b>132,101</b>	<b>131,140</b>
Non-Current liabilities	34,632	35,975	30,924	22,017	14,591	13,395
Current liabilities	49,135	49,007	54,808	63,753	60,688	56,433
<b>Total Liabilities</b>	<b>83,767</b>	<b>84,983</b>	<b>85,732</b>	<b>85,770</b>	<b>75,278</b>	<b>69,829</b>
Equity	43,279	46,731	47,087	51,961	56,823	61,311
<b>Total Equity &amp; liabilities</b>	<b>127,047</b>	<b>131,713</b>	<b>132,818</b>	<b>137,731</b>	<b>132,101</b>	<b>131,140</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	16,871	18,134	21,093	22,901	23,556	23,182
Non-cash Charges	5,677	5,343	3,029	3,225	3,346	3,471
<b>Operating Cash flows</b>	<b>21,786</b>	<b>33,043</b>	<b>18,192</b>	<b>22,109</b>	<b>24,611</b>	<b>25,909</b>
<b>FCFF</b>	<b>20,782</b>	<b>30,645</b>	<b>8,997</b>	<b>17,673</b>	<b>20,276</b>	<b>23,087</b>
Net borrowings	1,182	8,242	-999	1,047	-3,999	-5,606
<b>FCFE</b>	<b>19,571</b>	<b>36,132</b>	<b>6,867</b>	<b>17,124</b>	<b>14,352</b>	<b>15,380</b>
Net change in cash	2,684	198	-2,345	1,087	-368	-68
<b>Closing cash</b>	<b>3,413</b>	<b>3,611</b>	<b>1,267</b>	<b>2,354</b>	<b>1,985</b>	<b>1,917</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

**Valuation Methodology**

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.

**Ratings Criteria**

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

**Research Dissemination Policy**

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

**Analyst Certification**

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**Contact Details**

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: [info@akseerresearch.com](mailto:info@akseerresearch.com)

Alpha Capital (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: [info@alfaadhi.pk](mailto:info@alfaadhi.pk)