

Engro Fertilizers Limited

Result Review & Key Takeaways

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

Pakistan Research

EFERT: 2QCY22 Result Review & Analyst Briefing Takeaways

- EFERT announced its 2QCY22 financial results today, wherein the company reported consolidated LPS of PKR 0.07/share. This takes cumulative EPS for 1HCY22 to PKR 4.05, down 48.5% YoY. The result was below than our expectation due to higher than expected tax. Contrary to our expectations, the company has not announced dividend along with the result.
- Topline of the company increased by 47.9% YoY to PKR 38.3bn in 2QCY22 on the back of increase in urea and DAP prices by 27% and 120%.
- Company's gross margins declined to 30.5%, down 7.5pp YoY during 2QCY22 due to the suspension of concessionary gas price on its Enven plant and costlier gas on PP12.
- The management informed that the company has booked exchange loss of PKR 750mn in 2QCY22 on DAP due to increase in exchange rate volatility. This resulted in higher other expense of PKR 1.4bn in 2QCY22 compared to PKR 0.4bn in 2QCY21.
- The company has reported higher than expected tax expense during the quarter. The management disclosed that it has booked a deferred tax charge of PKR 1.6bn due to 4% increase in tax rate from tax year 2023 onwards.
- Management informed that the government has exempted fertilizer from sales tax which means input GST now becomes a cost. This exemption resulted in increase in fertilizer prices. Moreover, the industry is still facing challenges in recovering outstanding sales tax refunds from the government. As of June-22, sales tax refunds of the industry are PKR 70bn, of which EFERT's share is PKR 12.4bn.
- With regards to urea demand, the management expects it to reach 6.6mn in CY22 as compared to 6.3mn tons in CY21 due to improving agro-economics and probable cross border movement.
- We have a 'HOLD' recommendation on EFERT. Our Dec-22 PT of PKR 74/share provides a downside of 8.1% while the stock is offering dividend yield of 13.1%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	74
Current Price (PKR)	80.4
Upside/(Downside) (%)	-8.1%
Dividend Yield (%)	+13.1%
Total Return (%)	+4.8%
12-month High (PKR)	102.4
12-month Low (PKR)	68.1
Outstanding Shares (mn)	1,335.3
Market Cap (PKR mn)	107,304.6
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
Net Sales	25,916	38,323	47.9%	55,359	75,136	35.7%
Cost of Sales	16,065	26,632	65.8%	33,951	52,585	54.9%
Gross Profit	9,851	11,691	18.7%	21,408	22,552	5.3%
Distri. & Admin. Exp.	2,531	2,709	7.0%	4,770	5,173	8.5%
Other Income	492	588	19.6%	971	1,099	13.2%
Other Charges	452	1,404	210.6%	1,124	1,852	64.8%
Finance cost	570	583	2.2%	840	1,057	26.0%
Other gains / (losses)	(156)	(434)	179.0%	(352)	(746)	112.0%
Profit Before Tax	6,633	7,149	7.8%	15,293	14,822	-3.1%
Taxation	1,866	7,247	288.5%	4,784	9,409	96.7%
Net Income	4,768	(98)	NM	10,509	5,413	-48.5%
EPS	3.57	-0.07	NM	7.87	4.05	-48.5%
DPS	4.00	0.00	-100.0%	8.00	5.50	-31.3%

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	12.63	13.58	15.80	12.80	14.90	14.84
EPS Growth	-3.1%	7.5%	16.3%	-19.0%	16.4%	-0.4%
DPS	13.00	13.00	16.50	10.50	12.00	12.00
PER	6.4	5.9	5.1	6.3	5.4	5.4
Dividend Yield	16.2%	16.2%	20.5%	13.1%	14.9%	14.9%
EV/EBITDA	3.9	4.4	3.5	3.2	3.5	3.3
P/B	2.5	2.3	2.3	2.1	2.0	1.9
ROE	39.0%	38.8%	44.8%	34.1%	36.8%	34.3%

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 equity (FCFE) method. We have used a risk-free rate of 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'HOLD' recommendation on the stock based on our PT of 74/share. Our PT provides an downside of 8.1% along with a dividend yield of 13.1%.

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	CY22E	CY23F	CY24F
Net sales	121,355	105,846	132,363	159,008	139,223	142,935
Cost of sales	81,815	71,591	88,289	110,973	94,680	97,359
Gross Profit	39,540	34,255	44,074	48,035	44,544	45,576
SG & A	9,985	10,365	10,430	11,464	10,514	10,749
Operating Profit	29,555	23,890	33,644	36,571	34,030	34,827
Other income	4,352	1,667	1,790	1,903	1,879	1,089
Other charges	2,623	1,905	2,641	3,033	2,888	3,236
Finance cost	3,887	3,236	1,602	2,558	3,071	3,058
Profit before tax	27,398	21,299	29,890	31,269	29,689	29,577
Taxation	10,526	3,165	8,798	14,178	9,797	9,760
Profit after tax	16,871	18,134	21,093	17,091	19,892	19,817

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
PPE	65,924	65,734	73,031	75,838	78,753	79,417
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	84,855
Current assets	55,888	60,733	54,425	61,161	50,793	44,951
Total Assets	127,047	131,713	132,818	142,387	134,960	129,806
Non-Current liabilities	34,632	35,975	30,924	22,028	14,601	13,405
Current liabilities	49,135	49,007	54,808	70,203	66,334	58,583
Total Liabilities	83,767	84,983	85,732	92,231	80,935	71,988
Equity	43,279	46,731	47,087	50,157	54,025	57,818
Total Equity & liabilities	127,047	131,713	132,818	142,387	134,960	129,806

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net Income	16,871	18,134	21,093	17,091	19,892	19,817
Non-cash Charges	5,677	5,343	3,029	3,225	3,346	3,471
Operating Cash flows	21,786	33,043	18,192	16,915	20,662	24,473
FCFF	20,782	30,645	8,997	12,281	16,459	22,387
Net borrowings	1,182	8,242	-999	2,689	-3,448	-8,028
FCFE	19,571	36,132	6,867	13,572	10,953	12,310
Net change in cash	2,684	198	-2,345	1,542	-1,096	-468
Closing cash	3,413	3,611	1,267	2,809	1,713	1,245

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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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