

Engro Fertilizers Limited

Result Review & Key Takeaways

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

Pakistan Research

EFERT: 3QCY22 Result Review & Analyst Briefing Takeaways

- EFERT announced its 3QCY22 financial results today, wherein the company reported consolidated EPS of PKR 3.13 down 5.2% YoY. This takes cumulative EPS for 9MCY22 to PKR 7.19, down 35.7% YoY. Along with the result, the company has announced dividend of PKR 3.0/share taking cumulative 9MCY22 dividend to PKR 8.5/share.
- Company reported topline of PKR 35.7bn, down 4.4% YoY in 3QCY22, on back of lower Urea and DAP offtake which declined 24% and 32% YoY.
- Gross margins of the company clocked in at 27.3%, down 3.2pp QoQ during 3QCY22 due to the higher Urea production from Base Plant (~40% of gas is on PP12) and higher repair and maintenance charges owing to unscheduled break down at Enven plant.
- The finance cost of the company increased to PKR 582mn, up 36.7% YoY, which we believe is due to the increased borrowings and higher interest rates.
- Management has informed that some companies acquired stay order regarding super-tax collection, while EFERT is considering different legal options regarding the matter.
- Base plant is going through the necessary BMR with cost of USD ~50mn, which would be completed in 60 days as communicated earlier through PSX.
- Industry is still facing challenges in recovering outstanding sales tax refunds from the government. As of September-22, sales tax refunds of the industry are PKR 70bn, of which EFERT's share is PKR 12.4bn.
- With regards to Urea offtake and availability, the management expects demand to reach 6.5mn tons in CY22 as compared to 6.3mn tons which would be comfortably fulfilled with the help of government's decision to import 0.3mn tons of Urea. For DAP, management foresees ~25% YoY shrinkage in CY22 offtake.
- We have a 'BUY' recommendation on EFERT. Our June-23 PT of PKR 85/share provides an upside of 4.5% while the stock is offering dividend yield of 21.5%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	85
Current Price (PKR)	81.5
Upside/(Downside) (%)	+4.5%
Dividend Yield (%)	+21.5%
Total Return (%)	+25.9%
12-month High (PKR)	102.4
12-month Low (PKR)	68.1
Outstanding Shares (mn)	1,335.3
Market Cap (PKR mn)	108,880.3
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
Net Sales	37,383	35,739	-4.4%	92,742	110,876	19.6%
Cost of Sales	27,768	25,987	-6.4%	61,718	78,572	27.3%
Gross Profit	9,615	9,752	1.4%	31,024	32,304	4.1%
Distri. & Admin. Exp.	2,586	2,734	5.7%	7,356	7,908	7.5%
Other Income	458	205	-55.3%	1,429	1,304	-8.7%
Other Charges	561	151	-73.1%	1,685	2,004	18.9%
Finance cost	426	582	36.7%	1,266	1,640	29.6%
Other gains / (losses)	(162)	(270)	67.1%	(513)	(1,016)	97.8%
Profit Before Tax	6,339	6,219	-1.9%	21,632	21,041	-2.7%
Taxation	1,927	2,037	5.7%	6,711	11,446	70.5%
Net Income	4,412	4,182	-5.2%	14,921	9,595	-35.7%
EPS	3.30	3.13	-5.2%	11.17	7.19	-35.7%
DPS	3.50	3.00	-	11.50	8.50	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	12.6	13.6	15.8	13.1	19.7	18.6
EPS Growth	-3.1%	7.5%	16.3%	-16.9%	50.3%	-5.5%
DPS	13.0	13.0	16.5	14.5	17.5	16.0
PER	6.45	6.00	5.16	6.21	4.13	4.37
Dividend Yield	15.9%	15.9%	20.2%	17.8%	21.5%	19.6%
EV/EBITDA	3.9	4.4	3.5	3.2	2.8	2.8
P/B	2.5	2.3	2.3	2.4	2.3	2.1
ROE	39.0%	38.8%	44.8%	38.7%	54.6%	48.1%

Source: Company Accounts, Akseer Research

Muhammad Atif
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 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 'BUY' recommendation on the stock based on our PT of 85/share. Our PT provides an upside of 4.5% along with a dividend yield of 21.5%.

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	160,222	155,118	157,345
Cost of sales	81,815	71,591	88,289	111,316	99,070	102,388
Gross Profit	39,540	34,255	44,074	48,907	56,048	54,957
SG & A	9,985	10,365	10,430	11,313	10,945	11,213
Operating Profit	29,555	23,890	33,644	37,594	45,103	43,744
Other income	4,352	1,667	1,790	1,973	1,843	1,049
Other charges	2,623	1,905	2,641	2,864	3,664	3,506
Finance cost	3,887	3,236	1,602	2,547	3,716	4,081
Profit before tax	27,398	21,299	29,890	32,870	39,305	37,162
Taxation	10,526	3,165	8,798	15,350	12,971	12,263
Profit after tax	16,871	18,134	21,093	17,520	26,334	24,899

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	65,924	65,734	73,031	75,588	77,099	76,328
Other LT assets	5,235	5,247	5,362	5,388	5,413	5,438
Non-Current Assets	71,159	70,981	78,394	80,976	82,513	81,766
Current assets	55,888	60,733	54,425	59,267	53,320	52,022
Total Assets	127,047	131,713	132,818	140,243	135,833	133,788
Non-Current liabilities	34,632	35,975	30,924	22,026	14,599	13,403
Current liabilities	49,135	49,007	54,808	72,971	73,022	68,639
Total Liabilities	83,767	84,983	85,732	94,997	87,621	82,042
Equity	43,279	46,731	47,087	45,245	48,212	51,746
Total Equity & liabilities	127,047	131,713	132,818	140,243	135,833	133,788

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	16,871	18,134	21,093	17,520	26,334	24,899
Non-cash Charges	5,677	5,343	3,029	3,476	3,973	4,053
Operating Cash flows	21,786	33,043	18,192	17,650	26,366	26,986
FCFF	20,782	30,645	8,997	12,976	23,370	26,438
Net borrowings	1,182	8,242	-999	5,175	-1,015	-5,742
FCFE	19,571	36,132	6,867	16,793	19,866	17,962
Net change in cash	2,684	198	-2,345	-578	1,135	-389
Closing cash	3,413	3,611	1,267	688	1,823	1,435

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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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

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (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