

**Engro Fertilizers Limited**  
Result Review & Key Takeaways

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Pakistan Research

**EFERT: 4QCY21 Result Review & Analyst Briefing Takeaways**

- EFERT posted CY21 net profit of PKR 21.1bn (EPS PKR 15.80) compared to net profit of PKR 18.3bn (EPS PKR 13.58) in CY20. 4QCY21 EPS of the company stood at PKR 4.62, down 9% YoY. Along with the result, the company also announced a cash dividend of PKR 5.0/share for 4Q taking the CY21 DPS to PKR 15.0 compared to DPS of PKR 13.0 during same period last year.
- The company's urea production was down by 7% YoY to 2.1mn tons during CY21 due to its Enven plant turnaround for 22 days during 3Q. During CY21, urea sales of the company increased by 12% YoY to 2.3mn tons due to higher urea inventory available at the beginning of year.
- Finance cost of the company during CY21 clocked in at PKR 1.6bn, down by ~50% YoY.
- Highest ever PAT of PKR 21.1bn for CY21 is supported by one-offs of around PKR 1.7bn. These include reassessment of depreciation rate, inventory gain (earlier procurement of DAP) and sales to registered dealers.
- Going forward, the management sees urea demand to hover around 6.1mn tons due to increase in area under cultivation (up by ~2mn hectares in last 2 years), use of hybrid seeds, and increase in urea applicability per hectare with change in farming methods.
- The company is paying concessionary rates for gas due to the stay order. Meanwhile, following prudent approach company is booking gas cost on non-concessionary rates.
- The management disclosed that the company is gearing up for further avenues. However, current dividend stream will continue till new plans are finalized.
- We recommend 'HOLD' on EFERT, as stock is offering capital downside of 5.3% and a dividend yield of 14.26%.

**Key Data**

PSX Ticker	EFERT
Target Price (PKR)	80.0
Current Price (PKR)	84.1
Upside/(Downside) (%)	-5.3%
Dividend Yield (%)	14.26%
Total Return (%)	9.0%
12-month High (PKR)	86.0
12-month Low (PKR)	61.81
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	112,365
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
Net Sales	27,708	39,621	43%	105,846	132,363	25%
Cost of Sales	18,321	26,571	45%	71,591	88,289	23%
<b>Gross Profit</b>	<b>9,387</b>	<b>13,050</b>	<b>39%</b>	<b>34,255</b>	<b>44,074</b>	<b>29%</b>
Dist. & Admin. Exp.	3,140	3,074	-2%	10,365	10,430	1%
Other Income	1,660	362	-78%	2,666	1,790	-33%
Other Charges	126	956	659%	1,905	2,641	39%
Finance cost	473	337	-29%	3,236	1,602	-50%
Other gains (losses)/GIDC	-	(787)	NM	-	(1,301)	NM
<b>Profit Before Tax</b>	<b>7,309</b>	<b>8,258</b>	<b>13%</b>	<b>21,415</b>	<b>29,890</b>	<b>40%</b>
Taxation	549	2,086	280%	3,165	8,798	178%
<b>Net Income</b>	<b>6,760</b>	<b>6,172</b>	<b>-9%</b>	<b>18,250</b>	<b>21,093</b>	<b>16%</b>
EPS	5.06	4.62	-9%	13.58	15.80	16%
DPS	4.00	5.00		13.00	16.50	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	13.04	12.63	13.58	15.80	13.36	12.44
EPS Growth	56%	-3%	7%	16%	-15%	-7%
DPS	11.00	13.00	13.00	15.00	12.00	11.00
PER	6.5	6.7	6.2	5.3	6.3	6.8
Dividend Yield	13.1%	15.4%	15.4%	17.8%	14.3%	13.1%
EV/EBITDA	4.6	4.0	4.5	3.3	3.8	3.9
P/B	2.5	2.6	2.4	2.4	2.3	2.2
ROE	38.3%	39.0%	38.8%	44.1%	36.0%	32.2%

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 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 80/share. Following the recent price appreciation, the stock is offering capital downside of 5.3% and dividend yield of 14.3%.

### 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)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Net sales	109,197	121,355	105,846	132,363	125,458	129,814
Cost of sales	73,880	81,815	71,591	88,289	86,632	92,100
<b>Gross Profit</b>	<b>35,316</b>	<b>39,540</b>	<b>34,255</b>	<b>44,074</b>	<b>38,826</b>	<b>37,713</b>
SG & A	9,593	9,985	10,365	10,430	10,853	11,571
<b>Operating Profit</b>	<b>25,723</b>	<b>29,555</b>	<b>23,890</b>	<b>33,644</b>	<b>27,973</b>	<b>26,142</b>
Other income	2,062	4,352	2,549	1,790	1,400	883
Other charges	1,432	2,623	1,905	2,641	2,223	2,070
Finance cost	2,071	3,887	3,236	1,602	1,549	1,303
<b>Profit before tax</b>	<b>24,282</b>	<b>27,398</b>	<b>21,298</b>	<b>29,890</b>	<b>25,119</b>	<b>23,391</b>
Taxation	6,869	10,526	3,165	8,798	7,284	6,783
<b>Profit after tax</b>	<b>17,414</b>	<b>16,871</b>	<b>18,133</b>	<b>21,093</b>	<b>17,834</b>	<b>16,607</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	68,204	65,924	65,646	63,020	61,129	59,295
Other LT assets	4,630	5,235	5,247	5,129	5,030	4,947
Non-Current Assets	72,834	71,159	70,892	68,149	66,160	64,242
Current assets	44,887	55,888	60,821	50,792	40,968	39,547
<b>Total Assets</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>118,941</b>	<b>107,127</b>	<b>103,789</b>
Non-Current liabilities	33,069	34,632	35,975	24,450	16,295	10,937
Current liabilities	39,129	49,135	49,007	46,698	41,228	41,329
<b>Total Liabilities</b>	<b>72,198</b>	<b>83,767</b>	<b>84,983</b>	<b>71,148</b>	<b>57,523</b>	<b>52,265</b>
Equity	45,523	43,279	46,731	47,794	49,605	51,524
<b>Total Equity &amp; liabilities</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>118,941</b>	<b>107,127</b>	<b>103,789</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	17,414	16,871	18,133	21,093	17,834	16,607
Non-cash Charges	5,195	5,677	5,343	5,414	5,179	5,007
<b>Operating Cash flows</b>	<b>21,650</b>	<b>21,786</b>	<b>32,954</b>	<b>17,490</b>	<b>24,625</b>	<b>21,375</b>
<b>FCFF</b>	<b>18,660</b>	<b>20,782</b>	<b>30,645</b>	<b>15,833</b>	<b>22,436</b>	<b>19,127</b>
Net borrowings	-4,330	1,182	8,242	-13,456	-9,206	-5,335
<b>FCFE</b>	<b>12,845</b>	<b>19,571</b>	<b>36,131</b>	<b>1,246</b>	<b>12,130</b>	<b>12,867</b>
Net change in cash	-1,066	2,684	198	-4,064	321	1,310
<b>Closing cash</b>	<b>730</b>	<b>3,413</b>	<b>3,611</b>	<b>-452</b>	<b>-131</b>	<b>1,178</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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