

## Engro Fertilizers Limited

### Result Preview

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

Pakistan Research

## EFERT- 3QCY21 earnings to clock in at PKR 3.42/share; DPS PKR 3.0

- EFERT is scheduled to announce its 3QCY21 financial results on 13<sup>th</sup> October 2021, where the company is expected to report an EPS of PKR 3.42, down 35% YoY. For 9MCY21, the net earnings will clock in at PKR 11.29/ share, up 31% YoY. We are also expecting the management to announce PKR 3.0/ share dividend along with the results, which will take the 9M payout to PKR 11/ share.
- EFERT's net sales are likely to decline by 12% YoY to PKR 33bn during 3QCY21, which will largely be attributable to lower fertilizer offtake. Urea offtake likely to decline 4% YoY while DAP offtake is to fall by 47% YoY. However, some respite is expected to come from higher NPK offtakes as well as surge in urea and DAP prices. Average urea and DAP prices during the quarter rose by 7% YoY and 82% YoY respectively to PKR 1,748/bag and PKR 6,373/bag correspondingly.
- The cost of goods sold, though will decline 13% YoY to PKR 23.2bn, however, will jump 45% QoQ as EFERT's EnVen plant concessionary gas agreement was expired in June-21 and the company charging at the normal gas rate. The management informed that the company is in talks with the government to extend the concessionary gas period as it was not supplied as per the agreement in the early years of contract. This will result in 8pp YoY contraction in the GMs to 30% in 3QCY21. For 9M GMs are likely to settle at 35%, up 3pp YoY.
- Finance cost of the company is expected to decrease by 20% YoY as company's borrowing are likely to decline by 24% YoY due to debt servicing.
- During 3QCY20, EFERT booked tax reversal of ~PKR 3.4bn which reduced the tax expense. We expect the tax expense to normalize in 3QCY21, and will be around PKR1.9bn.
- We recommend 'BUY' on EFERT with our revised and rolled over June-22 price target (PT) of PKR 81/share. The new PT is offering an upside of 14% along with a dividend yield of 16%.

#### Key Data

PSX Ticker	EFERT
Target Price (PKR)	81
Current Price (PKR)	71
Upside/(Downside) (%)	14%
Dividend Yield (%)	16%
Total Return (%)	30%
12-month High (PKR)	78.5
12-month Low (PKR)	60.25
Outstanding Shares (mn)	1,335.29
Market Cap (PKR mn)	94,472
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	3QCY20	3QCY21E	YoY	9MCY20	9MCY21E	YoY
Net Sales	37,435	33,034	-12%	78,138	88,393	13%
Cost of Sales	26,592	23,232	-13%	53,270	57,183	7%
<b>Gross Profit</b>	<b>10,843</b>	<b>9,802</b>	<b>-10%</b>	<b>24,868</b>	<b>31,211</b>	<b>26%</b>
Dist. & Admin. Exp.	3,077	2,746	-11%	7,225	7,516	4%
Other Income	501	397	-21%	1,006	1,368	36%
Other Charges	408	505	24%	1,779	1,629	-8%
Finance cost	655	520	-21%	2,763	1,359	-51%
Other gains (losses)/GIDC	-	-	-	-	(352)	Na
<b>Profit Before Tax</b>	<b>7,203</b>	<b>6,429</b>	<b>-11%</b>	<b>14,107</b>	<b>21,723</b>	<b>54%</b>
Taxation	169	1,865	1001%	2,616	6,649	154%
<b>Net Income</b>	<b>7,034</b>	<b>4,565</b>	<b>-35%</b>	<b>11,491</b>	<b>15,074</b>	<b>31%</b>
EPS	5.27	3.42		8.61	11.29	
DPS	5.00	3.00		9.00	11.00	

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	13.04	12.63	13.58	14.81	12.31	12.22
EPS Growth	56%	-3%	7%	9%	-17%	-1%
DPS	11.00	13.00	19.90	13.50	11.50	11.50
PER	5.4	5.6	5.2	4.8	5.8	5.8
Dividend Yield	15.5%	18.4%	28.1%	19.1%	16.2%	16.2%
EV/EBITDA	4.1	3.5	3.9	3.0	3.2	3.2
P/B	2.1	2.2	2.0	1.9	1.9	1.9
ROE	38.3%	39.0%	38.8%	40.8%	33.2%	32.3%

Source: Company Accounts, Akseer Research

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

### 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 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 81/share. Our PT offers an upside 14% along with a dividend yield of 16%. 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) 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	CY21F	CY22F	CY23F
Net sales	109,197	121,355	105,846	120,023	113,349	118,357
Cost of sales	73,880	81,815	71,591	78,635	75,760	80,212
<b>Gross Profit</b>	<b>35,316</b>	<b>39,540</b>	<b>34,255</b>	<b>41,387</b>	<b>37,590</b>	<b>38,146</b>
SG & A	9,593	9,985	10,365	10,549	11,542	12,329
<b>Operating Profit</b>	<b>25,723</b>	<b>29,555</b>	<b>23,890</b>	<b>30,838</b>	<b>26,047</b>	<b>25,817</b>
Other income	2,062	4,352	2,549	1,837	1,120	777
Other charges	1,432	2,623	1,905	2,149	2,099	2,114
Finance cost	2,071	3,887	3,236	1,822	1,919	1,505
<b>Profit before tax</b>	<b>24,282</b>	<b>27,398</b>	<b>21,298</b>	<b>28,352</b>	<b>23,149</b>	<b>22,974</b>
Taxation	6,869	10,526	3,165	8,571	6,713	6,663
<b>Profit after tax</b>	<b>17,414</b>	<b>16,871</b>	<b>18,133</b>	<b>19,781</b>	<b>16,436</b>	<b>16,312</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	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	51,459	41,542	35,512
<b>Total Assets</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>119,609</b>	<b>107,702</b>	<b>99,754</b>
Non-Current liabilities	33,069	34,632	35,975	27,714	21,107	13,738
Current liabilities	39,129	49,135	49,007	43,409	37,030	35,495
<b>Total Liabilities</b>	<b>72,198</b>	<b>83,767</b>	<b>84,983</b>	<b>71,124</b>	<b>58,137</b>	<b>49,234</b>
Equity	45,523	43,279	46,731	48,485	49,565	50,521
<b>Total Equity &amp; liabilities</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>119,609</b>	<b>107,702</b>	<b>99,754</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net Income	17,414	16,871	18,133	19,781	16,436	16,312
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>15,985</b>	<b>23,713</b>	<b>22,503</b>
<b>FCFF</b>	<b>18,660</b>	<b>20,782</b>	<b>30,645</b>	<b>14,469</b>	<b>21,787</b>	<b>20,398</b>
Net borrowings	-4,330	1,182	8,242	-10,153	-9,485	-8,827
<b>FCFE</b>	<b>12,845</b>	<b>19,571</b>	<b>36,131</b>	<b>3,045</b>	<b>10,939</b>	<b>10,502</b>
Net change in cash	-1,066	2,684	198	-262	-202	-1,723
<b>Closing cash</b>	<b>730</b>	<b>3,413</b>	<b>3,611</b>	<b>3,349</b>	<b>3,148</b>	<b>1,425</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (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 Alfa Adhi Securities 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.

<b>Rating</b>	<b>Expected Total Return</b>
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)

**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.net](mailto:info@alfaadhi.net)