

Engro Fertilizers Limited

Result Preview

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

Pakistan Research

EFERT: 1QCY24 EPS likely to clock in at PKR 5.03; DPS PKR 6.0

- EFERT is scheduled to announce its 1QCY24 financial result on 18th April, 2024. Wherein, we expect the company to report a consolidated EPS of PKR 5.03 for 1QCY24 against a consolidated EPS of PKR 3.30 during 1QCY23.
- Along with the result, we expect the company to announce an interim cash dividend of PKR 6.0/share for the quarter.
- Topline of the company is anticipated to increase by 36% YoY to PKR 59.7bn on the back of elevated Urea prices.
- Company's Urea and DAP offtake for the quarter is expected to decrease by 6% (519k tons) and increase by 84% (83k tons) on YoY basis, respectively. While, Urea prices for the 1QCY24 averaged at PKR 3,755/bag up by 48% YoY.
- Subsequently, gross margin for the 1QCY24 is likely to settle at 35% compared to 24% SPLY.
- Distribution & Admin expense is expected to increase by 40% YoY in 1QCY24 to PKR 3.0bn on the back of increased fuel prices.
- Finance cost for the quarter is projected to increase by 30% YoY to PKR 567mn, due to higher interest rates.
- With the increase in super-tax rate, company is expected to record a tax expense of PKR 4.2bn with an effective-tax rate of 39% for 1QCY24.
- We have a 'BUY' recommendation on EFERT. Our Dec-24 PT of PKR 155/share provides upside of 4% while the stock is offering a dividend yield of 15%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	155
Current Price (PKR)	148
Upside/(Downside) (%)	4%
Dividend Yield (%)	15%
Total Return (%)	19%
12-month High (PKR)	155
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	197,651
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY23	1QCY24E	YoY
Net Sales	43,991	59,703	36%
Cost of Sales	33,216	44,106	33%
Gross Profit	10,775	15,597	45%
Distri. & Admin. Exp.	3,022	4,245	40%
Other income	717	942	31%
Other charges	611	703	15%
Finance cost	435	567	30%
Other gains / (losses)/GIDC	(633)	(11)	-98%
Profit Before Tax	6,790	11,014	62%
Taxation	2,386	4,295	80%
Net Income	4,404	6,718	53%
EPS	3.30	5.03	53%
DPS	3.50	6.00	71%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	15.8	12.0	19.6	21.0	30.0	30.0
EPS growth	16.3%	-24.1%	63.7%	7.2%	42.9%	-0.3%
DPS	16.5	13.5	20.5	22.0	24.0	24.0
PER	9.4	12.4	7.5	7.0	4.9	4.9
Dividend Yield	11.1%	9.1%	13.8%	14.9%	16.2%	16.2%
EV/EBITDA	5.5	6.0	3.0	3.8	2.9	3.0
P/B	4.2	4.4	4.1	4.6	3.9	3.4
ROE	44.8%	35.5%	54.7%	65.9%	79.2%	68.3%

Source: Company Accounts, Akseer Research

Saman Sarfaraz

saman.sarfaraz@akseerresearch.com

Valuation Basis

Our PT for Engro Fertilizers Limited (EFERT) has been computed using Free cash flow to firm (FCFF) method. We have used a risk-free rate of 15.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 21.0% and weighted average cost of capital of 18.4%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 155/share. Our PT provides upside of 4% along with a dividend yield of 15%. 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) higher than expected increase in gas prices, 3) lower than anticipated fertilizer demand, and 4) 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)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Net sales	132,363	157,017	223,705	239,693	245,340	257,284
Cost of sales	88,289	114,170	151,407	173,706	150,420	161,075
Gross Profit	44,074	42,847	72,297	65,987	94,920	96,209
SG & Admin	10,430	12,103	17,060	16,643	20,365	21,435
Operating Profit	33,644	30,745	55,238	49,344	74,555	74,775
Other income	1,790	2,325	3,714	3,220	1,057	75
Other charges	2,641	2,524	4,369	2,929	4,950	4,937
Finance cost	1,602	2,622	1,911	3,572	4,901	4,318
Profit Before Tax	29,890	26,562	49,693	46,018	65,760	65,594
Taxation	8,798	10,558	23,502	17,947	25,647	25,582
Profit After Tax	21,093	16,003	26,191	28,071	40,114	40,012

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
PPE	73,031	77,880	78,440	97,171	101,515	100,025
Other LT assets	5,362	7,699	5,596	5,663	5,650	5,639
Non-Current Assets	78,394	85,579	84,036	102,833	107,165	105,664
Current assets	54,425	59,835	75,281	86,705	60,776	62,612
Total Assets	132,818	145,413	160,843	191,063	169,466	169,801
Non-Current liabilities	30,924	17,438	14,627	31,240	35,760	37,637
Current liabilities	54,808	82,922	98,313	117,232	83,048	73,540
Total Liabilities	85,732	100,360	112,940	148,472	118,808	111,178
Equity	47,087	45,053	47,903	42,591	50,658	58,623
Total Equity & Liabilities	132,818	145,413	160,843	191,063	169,466	169,801

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Net Income	21,093	16,003	26,191	28,071	40,114	40,012
Non-cash Charges	3,029	3,438	4,070	4,080	5,008	5,221
Operating Cash flows	18,882	31,441	61,055	30,095	11,975	28,129
FCFF	9,686	24,734	57,431	9,463	5,612	27,032
Net borrowings	-1,689	-9,121	-17,468	31,461	3,590	2,850
FCFE	6,867	14,034	38,956	38,745	6,212	27,248
Net change in cash	-2,345	1,567	1,220	1,149	2,441	-4,799
Closing Cash	1,267	2,834	4,054	5,203	7,644	2,845

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

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@alphacapital.com.pk