

## Engro Fertilizers Limited

### Result Review

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

Pakistan Research

## EFERT: 1QCY24 EPS came in at PKR 8.08; DPS PKR 8.0

- EFERT announced its 1QCY24 financial result today, wherein the company reported consolidated EPS of PKR 8.08, up 145% YoY. Along with the result, company announced an interim cash dividend of PKR 8.0/share, for the quarter.
- Revenue of the company increased by 68% YoY to PKR 73.7bn, which we believe is due to the elevated Urea prices and higher sales (inclusive of imported quota).
- Gross margin for 1QCY24 increased to 31% against 24% in SPLY. The increase in margins was attributed to higher urea prices and improved margins on DAP trading.
- Company urea sales increased by 13.0% YoY in 1QCY24 while remain flattish barring imported quota. Moreover, DAP sales increased by 84% YoY to 83k tons in 1QCY24.
- Distribution & Admin expense grew by 82% YoY to PKR 5.4bn due to increase in transportation cost on the back of increased fuel prices and implementation of axle load amid higher volumetric sales.
- Other income of the company surged by 79% YoY to PKR 1.3bn on back of higher investment in PIBs and elevated interest rates during the quarter. While, the finance cost decrease by 63% YoY to PKR 160mn, due to lower borrowing.
- We have a 'BUY' recommendation on EFERT. Our Dec-24 PT of PKR 155/share provides upside of 0% while the stock is offering a dividend yield of 16%.

#### Key Data

PSX Ticker	EFERT
Target Price (PKR)	155
Current Price (PKR)	154
Upside/(Downside) (%)	0%
Dividend Yield (%)	16%
Total Return (%)	16%
12-month High (PKR)	154
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	205,823
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	1QCY23	1QCY24	YoY
Net Sales	43,991	73,783	68%
Cost of Sales	33,216	51,266	54%
<b>Gross Profit</b>	<b>10,775</b>	<b>22,518</b>	<b>109%</b>
Distri. & Admin. Exp.	3,022	5,494	82%
Other income	717	1,286	79%
Other charges	611	1,141	87%
Finance cost	435	160	-63%
Other gains / (losses/GIDC)	(633)	58	-109%
<b>Profit Before Tax</b>	<b>6,790</b>	<b>17,066</b>	<b>151%</b>
Taxation	2,386	6,282	163%
<b>Net Income</b>	<b>4,404</b>	<b>10,784</b>	<b>145%</b>
EPS	3.30	8.08	
DPS	3.50	8.00	

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	15.8	12.0	19.6	24.2	30.0	30.0
EPS growth	16.3%	-24.1%	63.7%	23.3%	24.3%	-0.3%
DPS	16.5	13.5	20.5	25.0	24.0	24.0
PER	9.8	12.9	7.9	6.4	5.1	5.1
Dividend Yield	10.7%	8.8%	13.3%	16.2%	15.6%	15.6%
EV/EBITDA	5.7	6.3	3.1	3.6	3.0	3.1
P/B	4.4	4.6	4.3	4.8	4.0	3.5
ROE	44.8%	35.5%	54.7%	75.4%	78.9%	68.0%

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 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 0% 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) 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	253,773	245,340	257,284
Cost of sales	88,289	114,170	151,407	180,830	150,420	161,075
<b>Gross Profit</b>	<b>44,074</b>	<b>42,847</b>	<b>72,297</b>	<b>72,943</b>	<b>94,920</b>	<b>96,209</b>
SG & Admin	10,430	12,103	17,060	17,893	20,365	21,435
<b>Operating Profit</b>	<b>33,644</b>	<b>30,745</b>	<b>55,238</b>	<b>55,050</b>	<b>74,555</b>	<b>74,775</b>
Other income	1,790	2,325	3,714	3,573	1,057	75
Other charges	2,641	2,524	4,369	3,382	4,950	4,937
Finance cost	1,602	2,622	1,911	3,165	4,901	4,318
<b>Profit Before Tax</b>	<b>29,890</b>	<b>26,562</b>	<b>49,693</b>	<b>52,307</b>	<b>65,760</b>	<b>65,594</b>
Taxation	8,798	10,558	23,502	20,026	25,647	25,582
<b>Profit After Tax</b>	<b>21,093</b>	<b>16,003</b>	<b>26,191</b>	<b>32,281</b>	<b>40,114</b>	<b>40,012</b>

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	90,452	60,719	62,555
<b>Total Assets</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>194,811</b>	<b>169,409</b>	<b>169,744</b>
Non-Current liabilities	30,924	17,438	14,627	31,244	35,764	37,642
Current liabilities	54,808	82,922	98,313	120,771	82,783	73,275
<b>Total Liabilities</b>	<b>85,732</b>	<b>100,360</b>	<b>112,940</b>	<b>152,015</b>	<b>118,547</b>	<b>110,917</b>
Equity	47,087	45,053	47,903	42,795	50,862	58,827
<b>Total Equity &amp; Liabilities</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>194,811</b>	<b>169,409</b>	<b>169,744</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Net Income	21,093	16,003	26,191	32,281	40,114	40,012
Non-cash Charges	3,029	3,438	4,070	4,080	5,008	5,221
<b>Operating Cash flows</b>	<b>18,882</b>	<b>31,441</b>	<b>61,055</b>	<b>35,473</b>	<b>10,541</b>	<b>28,129</b>
<b>FCFF</b>	<b>9,686</b>	<b>24,734</b>	<b>57,431</b>	<b>14,615</b>	<b>4,179</b>	<b>27,032</b>
Net borrowings	-1,689	-9,121	-17,468	31,963	3,091	2,850
<b>FCFE</b>	<b>6,867</b>	<b>14,034</b>	<b>38,956</b>	<b>44,625</b>	<b>4,280</b>	<b>27,248</b>
Net change in cash	-2,345	1,567	1,220	3,024	509	-4,799
<b>Closing Cash</b>	<b>1,267</b>	<b>2,834</b>	<b>4,054</b>	<b>7,078</b>	<b>7,587</b>	<b>2,788</b>

Source: Company Accounts, Akseer Research

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