

**Engro Fertilizers Limited**

## Result Review

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

Pakistan Research

**EFERT: 2QCY24 EPS clocked in at PKR 1.25, up 57% YoY; DPS PKR 3.00**

- EFERT announced its 2QCY24 financial results today, wherein the company reported a consolidated EPS of PKR 1.25, up by 57% YoY. In addition to the result, the company announced an interim cash dividend of PKR 3.00/share for the quarter.
- Net sales of the company increased by 3% YoY due to a combination of higher urea prices and improved DAP offtake (up 16% YoY) and higher NP+NPK offtake, up 81% YoY. Urea offtake for the quarter declined by 36% YoY due to turnaround of EnVen Plant which remained non-operational for ~55 days.
- Gross margins for 2QCY24 fell to 18%, compared to 30% SPLY, on account of higher repair and maintenance expenditure coupled with turnaround of EnVen plant, which has higher efficiency.
- EFERT has revised its 1Q2024 earnings down to PKR 7.7 billion (EPS: PKR 5.81) from the previously reported PKR 10.78 billion (EPS: PKR 8.08) due to recognizing an unamortized cost of PKR 5.3 billion for imported urea in 1Q2024, rather than amortizing it on a pro-rata basis.
- During 2QCY24, the distribution cost surged to PKR 3.4bn up by 13% YoY, primarily due to higher transportation and fuel charges along with other inflationary pressures.
- Other income of the company jumped to PKR 745mn, up by 67% YoY, driven by combination of a better return on investment portfolio.
- Finance cost grew by 74% YoY to PKR 1.2bn during 2QCY24, possibly due to increased borrowing.
- Effective-tax rate for 2QCY24 stood at 35% compared to ETR of 85% SPLY.
- We have a 'HOLD' recommendation on EFERT. Our Dec-24 PT of PKR 166/share. The stock is offering a downside of 1% along with a dividend yield of 11%.

**Key Data**

PSX Ticker	EFERT
Target Price (PKR)	166
Current Price (PKR)	168
Upside/(Downside) (%)	-1%
Dividend Yield (%)	11%
Total Return (%)	10%
12-month High (PKR)	177
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	223,876
Year End	December

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
Net Sales	38,375	39,421	3%	82,366	113,204	37%
Cost of Sales	26,951	32,287	20%	60,167	83,553	39%
<b>Gross Profit</b>	<b>11,424</b>	<b>7,134</b>	<b>-38%</b>	<b>22,199</b>	<b>29,651</b>	<b>34%</b>
Distri. & Admin. Exp.	3,043	3,427	13%	6,065	8,921	47%
Other Income	447	745	67%	1,164	2,032	75%
Other Charges	670	845	26%	1,281	1,986	55%
Finance cost	702	1,225	74%	1,138	1,386	22%
Other gains / (losses/GIDC)	(328)	178	NA	(961)	235	-124%
<b>Profit Before Tax</b>	<b>7,128</b>	<b>2,559</b>	<b>-64%</b>	<b>13,919</b>	<b>19,625</b>	<b>41%</b>
Taxation	6,069	893	-85%	8,455	7,175	-15%
<b>Net Income</b>	<b>1,060</b>	<b>1,666</b>	<b>57%</b>	<b>5,464</b>	<b>12,450</b>	<b>128%</b>
EPS	0.79	1.25	-	4.09	9.32	-
DPS	3.00	3.00	-	6.50	11.00	-

**Key Financial Ratios**

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	15.8	12.0	19.6	21.9	29.9	29.1
EPS Growth	16.3%	-24.1%	63.7%	11.9%	36.3%	-2.8%
DPS	16.5	13.5	20.5	18.5	25.5	26.0
PER	10.6	14.0	8.5	7.6	5.6	5.8
Dividend Yield	9.8%	8.1%	12.2%	11.0%	15.2%	15.5%
EV/EBITDA	6.2	6.8	3.4	4.4	3.3	3.3
P/B	4.8	5.0	4.7	4.6	4.1	3.8
ROE	44.8%	35.5%	54.7%	60.4%	73.4%	66.4%

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 18.2%.

### Investment Thesis

We have a 'HOLD' recommendation on EFERT. Our Dec-24 PT of PKR 166/share. The stock is offering a downside of 1% along with a dividend yield of 11%.

### 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)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net sales	132,363	157,017	223,705	258,293	290,974	294,688
Cost of sales	88,289	114,170	151,407	187,891	196,457	200,245
<b>Gross Profit</b>	<b>44,074</b>	<b>42,847</b>	<b>72,297</b>	<b>70,402</b>	<b>94,517</b>	<b>94,443</b>
SG & A	10,430	12,103	17,060	18,972	19,259	19,967
<b>Operating Profit</b>	<b>33,644</b>	<b>30,745</b>	<b>55,238</b>	<b>51,430</b>	<b>75,258</b>	<b>74,476</b>
Other income	1,790	2,325	3,714	2,714	1,495	1,374
Other charges	2,641	2,524	4,369	4,130	5,672	5,576
Finance cost	1,602	2,622	1,911	3,356	5,601	6,625
Unwinding of GIDC	<b>29,890</b>	<b>26,562</b>	<b>49,693</b>	<b>47,248</b>	<b>65,480</b>	<b>63,648</b>
<b>Profit before tax</b>	<b>8,798</b>	<b>10,558</b>	<b>23,502</b>	<b>17,948</b>	<b>25,537</b>	<b>24,823</b>
Taxation	<b>21,093</b>	<b>16,003</b>	<b>26,191</b>	<b>29,300</b>	<b>39,943</b>	<b>38,826</b>
<b>Profit after tax</b>	<b>132,363</b>	<b>157,017</b>	<b>223,705</b>	<b>258,293</b>	<b>290,974</b>	<b>294,688</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	73,031	77,880	78,440	91,571	101,116	99,631
Other LT assets	5,362	7,699	5,596	5,663	5,650	5,639
Non-Current Assets	78,394	85,579	84,036	97,233	106,766	105,271
Current assets	54,425	59,835	75,281	78,812	81,362	83,103
<b>Total Assets</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>177,570</b>	<b>189,654</b>	<b>189,899</b>
Non-Current liabilities	30,924	17,438	14,627	30,332	33,947	31,689
Current liabilities	54,808	82,922	98,313	98,745	101,320	99,715
<b>Total Liabilities</b>	<b>85,732</b>	<b>100,360</b>	<b>112,940</b>	<b>129,077</b>	<b>135,267</b>	<b>131,405</b>
Equity	47,087	45,053	47,903	48,494	54,387	58,494
<b>Total Equity &amp; liabilities</b>	<b>132,818</b>	<b>145,413</b>	<b>160,843</b>	<b>177,570</b>	<b>189,654</b>	<b>189,899</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,093	16,003	26,191	29,300	39,943	38,826
Non-cash Charges	3,029	3,438	4,070	4,080	4,730	5,201
<b>Operating Cash flows</b>	<b>18,882</b>	<b>31,441</b>	<b>61,055</b>	<b>3,029</b>	<b>28,681</b>	<b>39,644</b>
<b>FCFF</b>	<b>9,686</b>	<b>24,734</b>	<b>57,431</b>	<b>-12,100</b>	<b>17,822</b>	<b>39,969</b>
Net borrowings	-1,689	-9,121	-17,468	27,622	14,415	-368
<b>FCFE</b>	<b>6,867</b>	<b>14,034</b>	<b>38,956</b>	<b>13,441</b>	<b>28,821</b>	<b>35,560</b>
Net change in cash	-2,345	1,567	1,220	-831	-417	1,082
<b>Closing cash</b>	<b>1,267</b>	<b>2,834</b>	<b>4,054</b>	<b>3,223</b>	<b>2,806</b>	<b>3,889</b>

Source: Company Accounts, Akseer Research

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