

Engro Fertilizers Limited

Result Review

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

Pakistan Research

EFERT - 2QCY21 Results Update & analyst briefing takeaways

- EFERT announced its 2QCY21 financial results on 29th July and reported consolidated net earnings of PKR 3.60/share, +24% YoY. Higher than estimated earnings are mainly due to better urea and phosphates margins and significant jump in other income. The company also announced PKR 4.0/share dividend along with the results, taking 1HCY21 payout to PKR8/ share.
- Company's net sales declined 13% YoY due to lower urea (down 19% YoY) and DAP offtake (-48% YoY) during the quarter. However, for 1HCY21, the net sales were up 36% YoY due to bumper 1Q offtake and high urea prices on YoY.
- Gross margins increased by 5pps YoY to 38% during 2QCY21, due to zero provisioning for sales tax disallowance, as most of the sales were to the registered sellers.
- Other income increased by 119% YoY during 2QCY21, due to better sales of seed business.
- The company recorded loss allowance of PKR 156mn on GIDC unwinding.
- Updating on the current results and future outlook, the management in its last week's analyst briefing told the industry offtake to remain robust this year, sustaining 6.0mn tons offtake levels.
- The concessionary gas facility to EFERT for its Enven plant has ended and effective 1st July gas is supplied to as per fertilizer industry's current rate. EFERT management is in talks with Government for the resumption of the concessionary rate.
- Local urea prices are still on the lower levels as compared to international prices; hence, technically discount prevails in local prices.
- The management also told that the company has enough liquidity to meet GIDC repayments, and will not affect its cash payout capability.
- EFERT, at present is only selling its products to registered dealers to avoid any hit on sales tax disallowance.
- The company has subsidy receivables of PKR 6.5bn and PKR 4.2bn sales tax receivables, however, no update on the payments from the government.
- We have a 'HOLD' call on EFERT with Dec-21 PT of PKR 73 per share. The target return of the scrip is 6% which incorporates dividend yield of 10%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	73
Current Price (PKR)	76
Upside/(Downside) (%)	-4%
Dividend Yield (%)	10%
Total Return (%)	+6%
12-month High (PKR)	76.60
12-month Low (PKR)	58
Outstanding Shares (mn)	1,335.29
Market Cap (PKR mn)	101.642
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
Net Sales	29,911	25,916	-13%	40,703	55,359	36%
Cost of Sales	19,522	16,065	-18%	26,678	33,951	27%
Gross Profit	10,390	9,851	-5%	14,025	21,408	53%
Distri. & Admin. Exp.	2,733	2,531	-7%	4,148	4,770	15%
Other Income	244	534	119%	505	1,013	101%
Other Charges	1,222	452	-63%	1,371	1,124	-18%
Finance cost	896	570	-36%	2,108	840	-60%
GIDC Impact	-	(156)	-	-	(352)	-
Profit Before Tax	5,782	6,675	15%	6,903	15,335	122%
Taxation	1,896	1,866	-2%	2,447	4,784	96%
Net Income	3,886	4,810	24%	4,457	10,551	137%
EPS	2.91	3.60	24%	3.34	7.90	137%
DPS	4.00	4.00	0%	4.00	8.00	100%

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

Investment Thesis

Our recommendation for EFERT is "HOLD" on the stock-based with a Dec-21 price target of PKR 73. The total return is -4%, while the dividend yield is anticipated to be 10%. Our investment case on EFERT is based on 1) higher fertilizer prices, 2) volumes sustainability and 3) attractive dividend yield.

Risks

Key downside risks to our investments thesis are: 1) below expected gas supply, 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	99,641	106,389	112,510
Cost of sales	73,880	81,815	71,591	63,607	70,069	74,021
Gross Profit	35,316	39,540	34,255	36,035	36,320	38,488
SG & A	9,593	9,985	10,365	10,877	11,580	12,348
Operating Profit	25,723	29,555	23,890	25,158	24,740	26,140
Other income	2,062	4,352	2,549	2,002	1,642	1,117
Other charges	1,432	2,623	1,905	1,990	1,972	2,097
Finance cost	2,071	3,887	3,236	2,598	2,651	1,980
Profit before tax	24,282	27,398	21,298	22,572	21,758	23,180
Taxation	6,869	10,526	3,165	6,546	6,310	6,722
Profit after tax	17,414	16,871	18,133	16,026	15,448	16,458

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
PPE	68,204	65,924	65,646	63,020	60,499	58,079
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	65,529	63,026
Current assets	44,887	55,888	60,821	52,482	48,331	44,431
Total Assets	117,721	127,047	131,713	120,631	113,860	107,457
Non-Current liabilities	33,069	34,632	35,975	27,714	21,107	13,738
Current liabilities	39,129	49,135	49,007	40,842	35,912	32,438
Total Liabilities	72,198	83,767	84,983	68,556	57,020	46,176
Equity	45,523	43,279	46,731	52,075	56,841	61,281
Total Equity & liabilities	117,721	127,047	131,713	120,631	113,861	107,457

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net Income	17,414	16,871	18,133	16,026	15,448	16,458
Non-cash Charges	5,195	5,677	5,343	5,414	5,179	4,957
Operating Cash flows	21,650	21,786	32,954	10,354	19,093	19,356
FCFF	18,660	20,782	30,645	9,410	18,316	18,225
Net borrowings	-4,330	1,182	8,242	-5,816	-11,247	-9,491
FCFE	12,845	19,571	36,131	1,750	5,188	7,328
Net change in cash	-1,066	2,684	198	-904	1,062	181
Closing cash	730	3,413	3,611	2,708	3,770	3,951

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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