

Engro Fertilizers Limited

Result Preview

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

Pakistan Research

EFERT: 1QCY23 EPS to clock in at PKR 3.03, down 27% YoY; DPS PKR 3.00

- EFERT's BoD meeting is scheduled on April 14th, 2023 to consider the financial accounts for 1QCY23. We expect the company to report consolidated EPS of PKR 3.03, down 27% YoY. Along with the result, EFERT is expected to announce an interim dividend of PKR 3.0/share, during the quarter.
- Topline of the company is likely to increase by 7% YoY to PKR 39.4bn, due to the higher Urea prices, up 32% YoY. Urea offtake for 1Q to remain flat at 550k tons.
- 1QCY23 gross margin will likely clock in at 25% compared to 30% in SPLY. The decline in margins is attributable to the increase in gas price, costlier PP12 gas and higher repair and maintenance cost. Government has increased the gas prices for fertilizer manufacturers during mid of Feb-23, with retrospective implications from January 2023. Gas supplies under the PP12 would be costlier due to higher oil prices and PKR devaluation of ~47% YoY during the 1Q. Base plant was non-operational from March 4 to March 10 due to an unplanned shut down.
- Distribution & Admin expense is likely to increase by 24% YoY to PKR 3.1bn on back of higher fuel prices. Finance cost is projected to increase to PKR 840mn, up 77% YoY, due to the higher interest rates in 1QCY23.
- We have a 'BUY' recommendation on EFERT. Our Dec-23 PT of PKR 90/share provides an upside of 6% while the stock is offering a dividend yield of 22.3%.

Key Data

PSX Ticker	EFERT
Target Price (PKR)	90
Current Price (PKR)	85
Upside/(Downside) (%)	+6%
Dividend Yield (%)	22.27%
Total Return (%)	28%
12-month High (PKR)	102
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335
Market Cap (PKR mn)	113,941
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
Net Sales	36,813	39,433	7%
Cost of Sales	25,952	29,390	13%
Gross Profit	10,861	10,043	-8%
Distri. & Admin. Exp.	2,464	3,065	24%
Other income	511	469	-8%
Other charges	449	498	11%
Finance cost	475	840	77%
Profit Before Tax	7,673	6,045	-21%
Taxation	2,162	1,995	-8%
Net Income	5,511	4,050	-27%
EPS	4.13	3.03	-27%
DPS	5.50	3.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
EPS	13.6	15.8	12.0	22.6	24.1	24.7
EPS Growth	7.5%	16.3%	-24.1%	88.8%	6.4%	2.5%
DPS	13.0	16.5	13.5	19.0	18.0	18.5
PER	6.3	5.4	7.1	3.8	3.5	3.5
Dividend Yield	15.2%	19.3%	15.8%	22.3%	21.1%	21.7%
EV/EBITDA	4.6	3.7	3.8	2.4	2.2	2.3
P/B	2.4	2.4	2.5	2.3	2.0	1.7
ROE	38.8%	44.8%	35.5%	60.6%	55.4%	49.7%

Source: Company Accounts, Akseer Research

Muhammad Atif
muhammad.atif@alphacapital.com.pk

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 17.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 90/share. Our PT provides an upside of 6% along with a dividend yield of 22.3%.

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)						
	CY20A	CY21A	CY22A	CY23F	CY24F	CY24F
Net sales	105,846	132,363	157,017	200,448	208,361	218,645
Cost of sales	71,591	88,289	114,170	134,030	139,766	148,140
Gross Profit	34,255	44,074	42,847	66,418	68,595	70,506
SG & A	10,365	10,430	12,103	13,402	14,008	14,464
Operating Profit	23,890	33,644	30,745	53,016	54,587	56,042
Other income	1,667	1,790	2,325	1,998	1,546	987
Other charges	1,905	2,641	2,524	3,405	3,584	4,260
Finance cost	3,236	1,602	2,622	6,253	4,542	3,599
Profit before tax	21,299	29,890	26,562	45,096	47,964	49,170
Taxation	3,165	8,798	10,558	14,882	15,828	16,226
Profit after tax	18,134	21,093	16,003	30,214	32,136	32,944

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	65,734	73,031	77,880	83,655	88,929	94,514
Other LT assets	5,247	5,362	7,699	7,701	7,713	7,731
Non-Current Assets	70,981	78,394	85,579	91,356	96,642	102,245
Current assets	60,733	54,425	59,835	72,177	60,653	61,191
Total Assets	131,713	132,818	145,413	163,533	157,295	163,437
Non-Current liabilities	35,975	30,924	17,438	12,513	11,507	12,477
Current liabilities	49,007	54,808	82,922	101,123	87,790	84,722
Total Liabilities	84,983	85,732	100,360	113,636	99,298	97,198
Equity	46,731	47,087	45,053	49,897	57,997	66,238
Total Equity & liabilities	131,713	132,818	145,413	163,533	157,295	163,437

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	18,134	21,093	16,003	30,214	32,136	32,944
Non-cash Charges	5,343	3,029	3,438	4,081	4,366	4,626
Operating Cash flows	38,969	18,882	31,441	24,035	33,019	33,005
FCFF	36,572	9,686	24,734	18,369	26,422	25,204
Net borrowings	2,315	-1,689	-9,121	13,929	-7,736	356
FCFE	36,132	6,867	14,034	28,108	15,643	23,149
Net change in cash	198	-2,345	1,567	1,287	-610	114
Closing cash	3,611	1,267	2,834	4,122	3,512	3,626

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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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
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Hold	Between -5% and +15%
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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@alfaadhi.pk