

## Engro Fertilizers Limited

### Result Review & Key Takeaways

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Pakistan Research

## EFERT: 3QCY21 Result Review & Analyst Briefing Takeaways

- EFERT posted 3QCY21 net profit of PKR 4.4bn (EPS PKR 3.30) compared to net profit of PKR 7.0bn (EPS PKR 5.27) in 3QCY20. 9MCY21 EPS of the company stood at PKR 11.17, up 30% YoY. Along with the result, the company also announced a dividend of PKR 3.5/share taking the 9MCY21 DPS to PKR 11.50 (payout 103%) compared to DPS of PKR 9.0 (payout 105%) during same period last year.
- EFERT recorded significant decline in its gross margins of 12ppts QoQ to 26% in 3QCY21, attributable to normalization of gas tariff for its Enven plant. The management highlighted in the briefing that the company is in talks with the government and the SNGPL to extend the concessionary gas as it was not supplied as per the gas sale agreement in the early days of the contract.
- The company's urea production was down by 8% YoY to 1.5mn tons during 9MCY21 as its Enven plant went to turnaround for 22 days in Sept-21. During 9MCY21, urea sales of the company increased by 13% YoY to 1.6mn tons due to higher urea inventory available at the beginning of year.
- Fertilizer industry is selling urea at a discount of ~75% to current international urea price of PKR 7,000/bag. Local DAP prices, however, are largely in line with the international DAP prices.
- Going forward, the management hinted towards further hike in local DAP prices in 4QCY21 due to continuous surge in international DAP prices.
- The company has a subsidy receivable of PKR 6.5bn from the government while sales tax receivable stood at PKR 4.5bn end of Sept-21.
- The management disclosed that the company is gearing up for further avenues. However, current dividend stream will continue till new plans are finalized.
- We recommend 'BUY' on EFERT with our June-22 price target (PT) of PKR 81/share, offering an upside of 17% along with a dividend yield of 16%.

#### Key Data

PSX Ticker	EFERT
Target Price (PKR)	81.0
Current Price (PKR)	68.9
Upside/(Downside) (%)	17%
Dividend Yield (%)	13%
Total Return (%)	33%
12-month High (PKR)	78.5
12-month Low (PKR)	60.25
Outstanding Shares (mn)	1,335.29
Market Cap (PKR mn)	92,122
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	3QCY20	3QCY21	YoY	9MCY20	9MCY21	YoY
Net Sales	37,435	37,383	0%	78,138	92,742	19%
Cost of Sales	26,592	27,768	4%	53,270	61,718	16%
<b>Gross Profit</b>	<b>10,843</b>	<b>9,615</b>	<b>-11%</b>	<b>24,868</b>	<b>31,024</b>	<b>25%</b>
Dist. & Admin. Exp.	3,077	2,586	-16%	7,225	7,356	2%
Other Income	501	458	-9%	1,006	1,429	42%
Other Charges	408	561	37%	1,779	1,685	-5%
Finance cost	655	426	-35%	2,763	1,266	-54%
Other gains (losses)/GIDC	-	(162)	-	-	(513)	-
<b>Profit Before Tax</b>	<b>7,203</b>	<b>6,339</b>	<b>-12%</b>	<b>14,107</b>	<b>21,632</b>	<b>53%</b>
Taxation	169	1,927	1038%	2,616	6,711	157%
<b>Net Income</b>	<b>7,034</b>	<b>4,412</b>	<b>-37%</b>	<b>11,491</b>	<b>14,921</b>	<b>30%</b>
EPS	5.27	3.30	-37%	8.61	11.17	30%
DPS	5.00	3.50	-40%	9.00	11.50	22%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	13.04	12.63	13.58	14.81	12.31	12.22
EPS Growth	56%	-3%	7%	9%	-17%	-1%
DPS	11.00	13.00	19.90	13.50	11.50	11.50
PER	5.4	5.6	5.2	4.8	5.7	5.8
Dividend Yield	15.5%	18.4%	28.1%	19.1%	16.3%	16.3%
EV/EBITDA	4.1	3.5	3.9	3.0	3.2	3.2
P/B	2.1	2.2	2.0	1.9	1.9	1.9
ROE	38.3%	39.0%	38.8%	40.8%	33.2%	32.3%

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

We have a 'BUY' recommendation on the stock based on our PT of 81/share. Our PT offers an upside 17% 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) 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	CY21E	CY22F	CY23F
Net sales	109,197	121,355	105,846	120,023	113,349	118,357
Cost of sales	73,880	81,815	71,591	78,635	75,760	80,212
<b>Gross Profit</b>	<b>35,316</b>	<b>39,540</b>	<b>34,255</b>	<b>41,387</b>	<b>37,590</b>	<b>38,146</b>
SG & A	9,593	9,985	10,365	10,549	11,542	12,329
<b>Operating Profit</b>	<b>25,723</b>	<b>29,555</b>	<b>23,890</b>	<b>30,838</b>	<b>26,047</b>	<b>25,817</b>
Other income	2,062	4,352	2,549	1,837	1,120	777
Other charges	1,432	2,623	1,905	2,149	2,099	2,114
Finance cost	2,071	3,887	3,236	1,822	1,919	1,505
<b>Profit before tax</b>	<b>24,282</b>	<b>27,398</b>	<b>21,298</b>	<b>28,352</b>	<b>23,149</b>	<b>22,974</b>
Taxation	6,869	10,526	3,165	8,571	6,713	6,663
<b>Profit after tax</b>	<b>17,414</b>	<b>16,871</b>	<b>18,133</b>	<b>19,781</b>	<b>16,436</b>	<b>16,312</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	68,204	65,924	65,646	63,020	61,129	59,295
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	66,160	64,242
Current assets	44,887	55,888	60,821	51,459	41,542	35,512
<b>Total Assets</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>119,609</b>	<b>107,702</b>	<b>99,754</b>
Non-Current liabilities	33,069	34,632	35,975	27,714	21,107	13,738
Current liabilities	39,129	49,135	49,007	43,409	37,030	35,495
<b>Total Liabilities</b>	<b>72,198</b>	<b>83,767</b>	<b>84,983</b>	<b>71,124</b>	<b>58,137</b>	<b>49,234</b>
Equity	45,523	43,279	46,731	48,485	49,565	50,521
<b>Total Equity &amp; liabilities</b>	<b>117,721</b>	<b>127,047</b>	<b>131,713</b>	<b>119,609</b>	<b>107,702</b>	<b>99,754</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	17,414	16,871	18,133	19,781	16,436	16,312
Non-cash Charges	5,195	5,677	5,343	5,414	5,179	5,007
<b>Operating Cash flows</b>	<b>21,650</b>	<b>21,786</b>	<b>32,954</b>	<b>15,985</b>	<b>23,713</b>	<b>22,503</b>
<b>FCFF</b>	<b>18,660</b>	<b>20,782</b>	<b>30,645</b>	<b>14,469</b>	<b>21,787</b>	<b>20,398</b>
Net borrowings	-4,330	1,182	8,242	-10,153	-9,485	-8,827
<b>FCFE</b>	<b>12,845</b>	<b>19,571</b>	<b>36,131</b>	<b>3,045</b>	<b>10,939</b>	<b>10,502</b>
Net change in cash	-1,066	2,684	198	-262	-202	-1,723
<b>Closing cash</b>	<b>730</b>	<b>3,413</b>	<b>3,611</b>	<b>3,349</b>	<b>3,148</b>	<b>1,425</b>

Source: Company Accounts, Akseer Research

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