

## Engro Fertilizers Limited

### Result Review & Key Takeaways

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

Pakistan Research

## EFERT: 4QCY22 Result Review & Analyst Briefing Takeaways

- EFERT announced its 4QCY22 financial results today, wherein the company reported consolidated EPS of PKR 4.80 up 4% YoY. This takes CY22 earnings to PKR 11.98/share, down 24.1% YoY. Along with the result, EFERT announced a final cash dividend of PKR 5.0/share, taking the cumulative dividend to PKR 13.5/share during CY22.
- Topline increased to PKR 46.1bn, up 16% YoY in 4Q, on the back of higher fertilizer prices and better margins on trading portfolio. However, urea offtake declined by 25% YoY to 413k tons.
- Gross margin declined to 23% (-10% YoY) during 4Q as gas supplied to Base plant became costlier (priced on PP12 policy). Moreover, decrease in offtake resulted in low fixed cost recovery resulting in further margin contraction.
- Distribution & Admin expense increased by 36% YoY to PKR 4.2bn on back of higher fuel prices.
- Other-income of the company increased by 182% YoY to PKR 1.0bn owing to sale of scrap recovered from Base plant turnaround and higher income from investments due to elevated interest rates.
- The finance cost increased to PKR 982mn, up 192% YoY, which we believe is due to the increased short-term borrowings and higher interest rates.
- Management has informed that BMR on Base plant has been completed with a total cost of USD ~50mn, which will improve the efficiency of the plant.
- Company got favourable decision from Sindh High Court regarding 10% super-tax charged on CY21 profits. After weighing legal options, company has reversed 6% or PKR 1.8bn super-tax charged retrospectively on preceding year's profit.
- EFERT, along with other industry players, is facing challenges in recovering outstanding sales tax refunds and subsidy receivable from the government. As of December-22, EFERT's sales tax refunds and recoverable subsidy amount stood at PKR 12.4bn and PKR 6.5bn, respectively.
- As per the management, dealer margin on urea has increased from PKR 50/bag to 100/bag.
- Despite prevailing import restrictions, company was successful in opening LC for 27k tons of DAP, however its packaging suppliers are facing issues in sourcing the raw material.
- We have a 'HOLD' recommendation on EFERT. Our Dec-23 PT of PKR 70/share provides a downside of 18% while the stock is offering dividend yield of 18.7%.

### Key Data

PSX Ticker	EFERT
Target Price (PKR)	70
Current Price (PKR)	86
Upside/(Downside) (%)	-18%
Dividend Yield (%)	18.70%
Total Return (%)	1%
12-month High (PKR)	104
12-month Low (PKR)	75
Outstanding Shares (mn)	1,335.30
Market Cap (PKR mn)	114,288
Year End	December

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22	YoY
Net Sales	39,621	46,141	16%	132,363	157,017	19%
Cost of Sales	26,571	35,598	34%	88,289	114,170	29%
<b>Gross Profit</b>	<b>13,050</b>	<b>10,543</b>	<b>-19%</b>	<b>44,074</b>	<b>42,847</b>	<b>-3%</b>
Distri. & Admin. Exp.	3,074	4,195	36%	10,430	12,103	16%
Other Income	362	1,021	182%	1,790	2,325	30%
Finance cost	337	982	192%	1,602	2,622	64%
<b>Profit Before Tax</b>	<b>8,258</b>	<b>5,521</b>	<b>-33%</b>	<b>29,890</b>	<b>26,562</b>	<b>-11%</b>
Taxation	2,086	(888)	NM	8,798	10,558	20%
<b>Net Income</b>	<b>6,172</b>	<b>6,409</b>	<b>4%</b>	<b>21,093</b>	<b>16,003</b>	<b>-24%</b>
EPS	4.62	4.80	4%	15.80	11.98	-24%
DPS	5.00	5.00	-	16.50	13.50	-

### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	12.6	13.6	15.8	12.0	17.6	17.7
EPS Growth	-3.1%	7.5%	16.3%	-24.1%	47.0%	0.4%
DPS	13.0	13.0	16.5	13.5	16.0	15.0
PER	6.8	6.3	5.4	7.1	4.9	4.8
Dividend Yield	15.2%	15.2%	19.3%	15.8%	18.7%	17.5%
EV/EBITDA	4.1	4.6	3.7	4.1	3.3	3.1
P/B	2.6	2.4	2.4	2.5	2.4	2.2
ROE	39.0%	38.8%	44.8%	35.5%	49.8%	46.5%

Source: Company Accounts, Akseer Research

Muhammad Atif  
[muhammad.atif@alphacapital.com.pk](mailto: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 'HOLD' recommendation on the stock based on our Dec-23 PT of 70/share. Our PT provides a downside of 18% along with a dividend yield of 18.7%.

### 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)						
	CY19A	CY20A	CY21A	CY22A	CY23F	CY24F
Net sales	121,355	105,846	132,363	157,017	166,566	176,093
Cost of sales	81,815	71,591	88,289	114,170	115,867	123,779
<b>Gross Profit</b>	<b>39,540</b>	<b>34,255</b>	<b>44,074</b>	<b>42,847</b>	<b>50,699</b>	<b>52,314</b>
SG & A	9,985	10,365	10,430	12,103	10,810	11,265
<b>Operating Profit</b>	<b>29,555</b>	<b>23,890</b>	<b>33,644</b>	<b>30,745</b>	<b>39,889</b>	<b>41,049</b>
Other income	4,352	1,667	1,790	2,325	2,438	1,557
Other charges	2,623	1,905	2,641	2,524	2,806	2,851
Finance cost	3,887	3,236	1,602	2,622	4,144	4,454
<b>Profit before tax</b>	<b>27,398</b>	<b>21,299</b>	<b>29,890</b>	<b>26,562</b>	<b>35,116</b>	<b>35,257</b>
Taxation	10,526	3,165	8,798	10,558	11,588	11,635
<b>Profit after tax</b>	<b>16,871</b>	<b>18,134</b>	<b>21,093</b>	<b>16,003</b>	<b>23,528</b>	<b>23,622</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	65,924	65,734	73,031	75,588	75,588	74,076
Other LT assets	5,235	5,247	5,362	5,388	5,413	5,438
Non-Current Assets	71,159	70,981	78,394	80,976	81,001	79,514
Current assets	55,888	60,733	54,425	59,616	61,020	60,427
<b>Total Assets</b>	<b>127,047</b>	<b>131,713</b>	<b>132,818</b>	<b>140,592</b>	<b>142,021</b>	<b>139,941</b>
Non-Current liabilities	34,632	35,975	30,924	22,020	14,594	13,398
Current liabilities	49,135	49,007	54,808	73,509	80,201	75,724
<b>Total Liabilities</b>	<b>83,767</b>	<b>84,983</b>	<b>85,732</b>	<b>95,528</b>	<b>94,794</b>	<b>89,122</b>
Equity	43,279	46,731	47,087	45,064	47,226	50,819
<b>Total Equity &amp; liabilities</b>	<b>127,047</b>	<b>131,713</b>	<b>132,818</b>	<b>140,592</b>	<b>142,021</b>	<b>139,941</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	16,871	18,134	21,093	16,003	23,528	23,622
Non-cash Charges	5,677	5,343	3,029	3,476	3,973	3,977
<b>Operating Cash flows</b>	<b>21,786</b>	<b>33,043</b>	<b>18,192</b>	<b>16,228</b>	<b>20,836</b>	<b>25,751</b>
<b>FCFF</b>	<b>20,782</b>	<b>30,645</b>	<b>8,997</b>	<b>11,776</b>	<b>19,639</b>	<b>26,270</b>
Net borrowings	1,182	8,242	-999	5,588	685	-6,362
<b>FCFE</b>	<b>19,571</b>	<b>36,132</b>	<b>6,867</b>	<b>15,785</b>	<b>17,547</b>	<b>16,923</b>
Net change in cash	2,684	198	-2,345	-252	819	-92
<b>Closing cash</b>	<b>3,413</b>	<b>3,611</b>	<b>1,267</b>	<b>1,015</b>	<b>1,835</b>	<b>1,742</b>

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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**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](mailto: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](mailto:info@alfaadhi.pk)