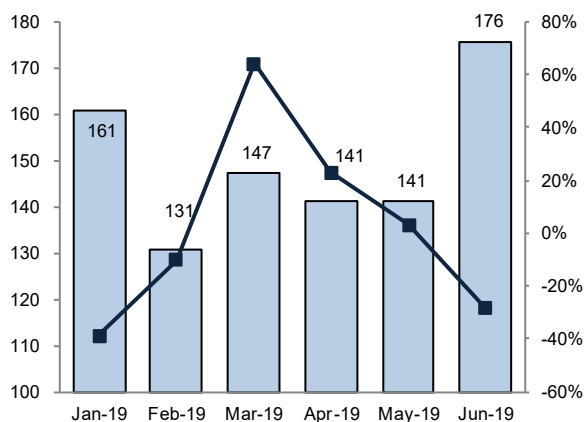
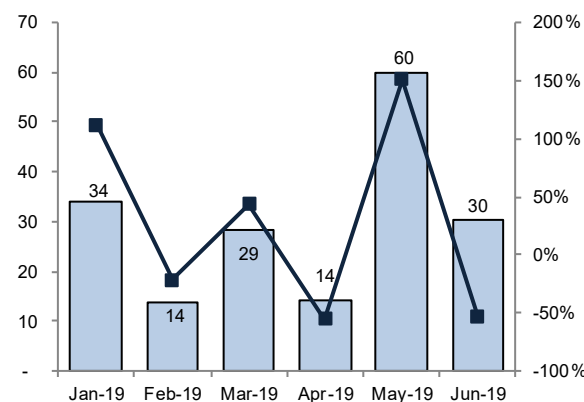


COMPANY UPDATE

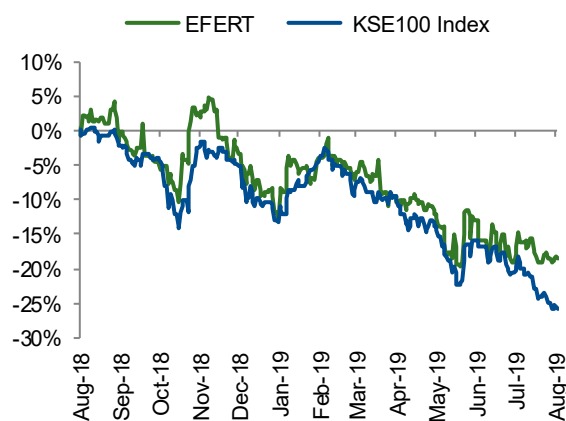
Urea Offtake (Ktons) and YoY change



DAP Offtake (Ktons) & YoY change



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Fertilizer

EFERT: Earnings for 2QCY19 to increase by +8%YoY to PKR 2.65/share

- Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 2QCY19 on 8th Aug-19 where we expect earnings for 2QCY19 to increase by +8%YoY to PKR 3.53bn (EPS: PKR 2.65).
- We attribute increase in profitability for 2QCY19 to improved margins of urea (increase in prices). However, increase in finance cost and one-off tax reversal (PKR ~1bn if materializes) may limit growth in earnings in our view.
- We have a liking for EFERT, based on our Dec-19 target price of PKR 71.2/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 5.38x and offers a dividend yield of 17.1%.

EFERT: Earnings for 2QCY19 to increase by +8%YoY to PKR 3.53bn (EPS: PKR 2.65)

Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 2QCY19 on 8th Aug-19 where we expect earnings to increase by +8%YoY to PKR 3.53bn (EPS: PKR 2.65). On a cumulative basis earnings are expected to grow by +5%YoY to PKR 7.54bn (EPS: PKR 5.65). We attribute the increase in profitability for 2QCY19 to improved margins in urea (increase in prices by PKR80/bag). However, increase in finance cost and one-off tax reversal (PKR ~1bn if materializes) may limit growth in earnings in our view. With offtake dropping by 8%/13% YoY for urea/DAP and prices of fertilizers increasing by ~20% (avg.) net sales may increase by +7%YoY to PKR 24.4bn. However, finance cost may drag earnings by 2.1xYoY to PKR 0.75bn (increase in borrowings and high interest rates). More so, in case if company books a tax reversal owing to fixation of corporate tax rate at 29%, this would drop earnings by PKR ~0.75/share. Lastly, we expect company to announce dividend of PKR 3.00/share for the quarter.

Exhibit:

EFERT: 2QCY19 Result Highlights

Period End	Dec- PKRmm	2QCY19E	2QCY18	YoY	1HCY19E	1HCY18	YoY
Net Sales		24,391	22,898	7%	48,044	41,116	17%
Gross Profit		9,203	6,689	38%	16,802	14,020	20%
Selling / Dist.		1,783	1,606	11%	3,419	3,271	5%
Other Op. Income		518	509	2%	1,529	1,654	-8%
EBIT		7,133	5,207	37%	13,420	11,318	19%
Finance Cost		749	362	2.1x	1,548	886	75%
Pre-Tax Profits		6,384	4,845	32%	11,872	10,432	14%
Taxation		2,851	1,585	80%	4,333	3,282	32%
Post-Tax Profits		3,533	3,260	8%	7,539	7,149	5%
EPS		2.65	2.44		5.65	5.36	
DPS		3.00	4.00		3.00	4.00	

Key Ratios

Gross Profit Margins	37.7%	29.2%	35.0%	34.1%
Ebit Margins	29.2%	22.7%	27.9%	27.5%
Effective Tax Rate	44.7%	32.7%	36.5%	31.5%

Source: IGI Research, Company Financials, PSX

No. of shares: 1334mm

Recommendation

We have a liking for EFERT, based on our Dec-19 target price of PKR 71.2/share, offering +11% upside from its last closing. The company is currently trading at CY19E P/E of 5.38x and offers a dividend yield of 17.1%.

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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IGI Finex Securities Limited

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