

# Day Break

Thursday, 04 August 2016

## Company Update

### Engro Fertilizer Limited

Fertilizer

<b>Recommendation</b>	<b>BUY</b>
Target Price	90.0
Last Closing	67.4
Upside	34%

#### Market Data

Bloomberg Tkr.	EFERT PA
Shares (mn)	1,330.9
Market Cap (PKRbn   USDmn)	89.7   858.5
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	(2.8)	(17.0)	(31.2)
Low	63.7	63.7	63.7
High	72.1	81.2	99.4

#### Key Company Financials

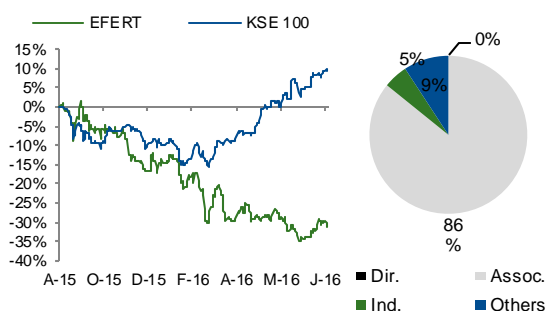
Period End: Dec

PKRbn	CY15A	CY16E	CY17F	CY18F
Total Revenue	87.6	65.0	75.4	77.2
Net Income	15.0	10.3	15.8	17.2
EPS (PKR)	11.3	7.7	11.9	12.9
DPS (PKR)	6.0	2.1	6.5	6.5
Total Assets	105.4	101.7	103.9	109.3
Total Equity	42.5	50.1	57.3	65.8

#### Key Financial Ratios

	CY15A	CY16E	CY17F	CY18F
ROE (%)	35%	21%	28%	26%
P/E (x)	6.0	8.7	5.7	5.2
P/B (x)	2.1	1.8	1.6	1.4
DY (%)	8.9	3.1	9.6	9.6

#### Relative Price Performance & Shareholding



#### About the Company

The Company is a public limited company incorporated on June 29, 2009 in Pakistan as a wholly owned subsidiary of Engro Corporation Limited. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers.

Source: Bloomberg, KSE 100 & IGI Research

#### Analyst

Rashmina Lalani  
rashmina.lalani@igi.com.pk  
Tel: (+92-21) 111-234-234 Ext.: 826

## Engro Fertilizers Limited

### Earning Marred by Lower Offtake and Super Tax in 2QCY16

- Engro Fertilizers' (EFERT) board meeting is scheduled on 10<sup>th</sup> Aug-16 to announce financial results for 2QCY16. We expect the company to record profitability of PKR 691mn (EPS PKR 0.52) in 2QCY16, faltering by 83%YoY.
- For the 1HCY16, profitability is expected to take a hit of 60%YoY to PKR 2.8bn (EPS PKR 2.11). Company is probable to record super tax liability of PKR 640mn (PKR 0.48/share) in 1HCY16.
- We have revised down our Dec-16 Target Price to PKR 90/share from previous estimate of PKR 97/share based on weak fundamentals of the sector. However our forecasted price still offers +34% capital upside at last close of PKR 67/share, leading to 'BUY' call on the scrip. EFERT is currently trading at CY16E P/E multiple of 8.7x.

#### Earnings to clock in at PKR 0.52/share in 2QCY16

Engro Fertilizers' (EFERT) board meeting is scheduled on 10<sup>th</sup> Aug-16 to announce financial results for 2QCY16. We expect the company to record profitability of PKR 691mn (EPS PKR 0.52) in 2QCY16, faltering by 83%YoY. We anticipate company to announce cash dividend of PKR 0.6/share along with the result. We base our estimates on a) 47%YoY slump in Urea offtake to 242k tons, b) lower realized prices of Urea due to discounts and government's announcement to lower the price to PKR 1400/bag from Jul-16 onwards, c) 24%YoY fall in DAP offtake to 63k tons, d) weaker DAP prices at an average of PKR 2900/ton, and e) 30% drop in finance cost backed by constant deleveraging and lower interest rates.

For the 1HCY16, profitability is expected to take a hit of 60%YoY to PKR 2.8bn (EPS PKR 2.11). Company is probable to record super tax liability of PKR 640mn (PKR 0.48/share) in 1HCY16.

#### Outlook

As per NFDC, EFERT had significant urea inventory of 468k tons, equivalent to ~3 months of production. However, amid government providing urea and DAP at subsidized rates from Jul-16, we expect fertilizer offtake to pick up in 2HCY16, improving earnings and cash-flow cycle for fertilizer manufactures.

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### Recommendation

We have revised down our Dec-16 Target Price to PKR 90/share from previous estimate of PKR 97/share based on weak fundamentals of the sector. However our forecasted price still offers +34% capital upside at last close of PKR 67/share, leading to 'BUY' call on the scrip. EFERT is currently trading at CY16E P/E multiple of 8.7x.

#### Exhibit: Financial Highlights

PKR mn	2QCY16E	2QCY15	YoY	1HCY16E	1HCY15	QoQ
Revenue	11,034	20,386	-46%	23,639	38,059	-38%
Gross Profit	3,855	7,320	-47%	8,793	14,090	-38%
Selling and Distribution	748	1,137	-34%	1,603	2,233	-28%
Other Income	35	472	-93%	308	1,247	-75%
Finance Cost	793	1,134	-30%	1,544	2,396	-36%
Profit before Tax	1,930	4,934	-61%	5,017	9,525	-47%
Tax	1,239	877	41%	2,206	2,409	-8%
Profit after tax	691	4,057	-83%	2,812	7,116	-60%
EPS	0.52	3.06		2.11	5.36	
DPS	0.60	1.50		0.60	1.50	
Key Ratios						
Gross Margin	35%	36%		37%	37%	
Net Margin	6%	20%		12%	19%	
Effective Tax Rate	64%	18%		44%	25%	

Source: IGI Research, Company Financials

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651