

Day Break

Friday, 14 February 2020



COMPANY UPDATE

Engro Fertilizers Limited

Fertilizer

Recommendation **NEUTRAL**

Target Price: Dec/20 80.3

Last Closing: 12-Feb-20 74.9

Upside: 7.2

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 11M

Market Data

Bloomberg Tkr. EFERT PA

Shares (mn) 1,335.3

Free Float Shares (mn) 600.9

Free Float Shares (%) 45.0%

Market Cap (PKRbn | USDmn) 100.1 | 647.9

Exchange KSE 100

Price Info. 90D 06M 12M

Abs. Return (13.1) 5.9 (12.5)

Lo 65.1 60.9 60.9

Hi 77.2 78.6 78.6

Key Company Financials

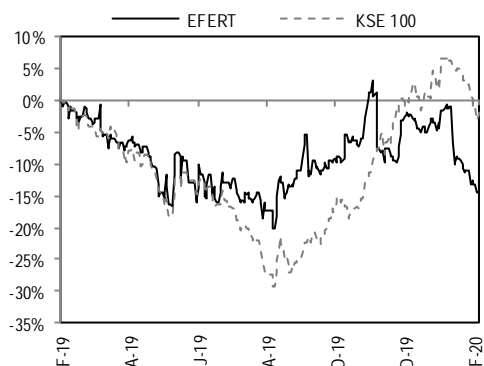
Period End: Dec

PKRbn	CY18a	CY19e	CY20f	CY21f
Total Revenue	109.2	120.1	111.3	114.5
Net Income	17.4	16.6	18.7	19.3
EPS (PKR)	13.0	12.4	14.0	14.5
DPS (PKR)	11.0	12.0	13.0	13.0
Total Assets	117.7	128.9	115.5	110.5
Total Equity	45.5	46.1	48.5	50.5

Key Financial Ratios

ROE (%)	39.6	36.2	39.5	39.0
P/E (x)	5.7	6.0	5.4	5.2
P/B (x)	2.2	2.2	2.1	2.0
DY (%)	14.7	16.0	17.3	17.3

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Fertilizer

EFERT: Earnings to increase by +17%/y to PKR 4.53/share for 4QCY19

- ✓ Engro Fertilizer Limited (EFERT) is scheduled to announce its financial result for 4QCY19 on 17th Feb-20 where we expect company to report a profit of PKR 6.05bn (EPS: PKR4.53), up +17%/y
- ✓ We have a liking for the scrip based on our Dec-20 target price of PKR 80.3/share offering +7% upside from its last closing. The company is currently trading at CY20 inexpensive P/E of 5.4x, offering an attractive dividend yield of 17%

Earnings of PKR 4.53/share expected for 4QCY19

Engro Fertilizer Limited (EFERT) is scheduled to announce its financial result for 4QCY19 on 17th Feb-20 where we expect company to report a profit of PKR 6.05bn (EPS: PKR4.53), up +17%/y. This takes total earnings to PKR 16.6bn (EPS: PKR 12.41) for CY19 depicting 5% on year decrease owing to higher tax charges. We expect company to announce a cash dividend of PKR 1.00/share for the 4QCY19, taking total pay out to PKR 12.00/share for the whole year.

Higher sales and improved margins to drive earnings

We attribute +17%/y increase in earnings for the quarter in review primarily to high urea sales and increase in other income. Top line is estimated to rise by +6%/y to PKR 42.4bn owing to increase in fertilizer prices and urea sales combined with 36%/y drop in DAP sales. Gross profits are estimated to increase by +8% owing to higher prices, better margins and concessionary gas rate, outweighing the increase in gas cost. Support to earnings may also come from increase in other income with cash tied up in investments. However, finance charge may absorb the impact, estimated to increase by +31%/y.

Exhibit EFERT: 4QCY19 Result Highlights

Period End Dec- PKRmn	4QCY19	4QCY18	Y/Y	CY19	CY18	Y/Y
Net Sales	42,395	39,981	6%	120,144	109,197	10%
Gross Profit	12,898	11,421	13%	37,853	35,316	7%
Selling / Dist.	2,976	2,762	8%	8,426	8,008	5%
Other Op. Income	628	194	3.2x	4,281	2,062	2.1x
EBIT	9,371	7,673	22%	30,152	26,353	14%
Finance Cost	851	651	31%	4,080	2,071	97%
Pre-Tax Profits	8,520	7,022	21%	26,073	24,282	7%
Taxation	2,471	1,857	33%	9,512	6,869	38%
Post-Tax Profits	6,049	5,164	17%	16,560	17,414	-5%
EPS	4.53	3.87		12.41	13.05	
DPS	1.00	3.00		12.00	11.00	

Key Ratios

Gross Profit Margins	30.4%	28.6%	31.5%	32.3%
Ebit Margins	22.1%	19.2%	25.1%	24.1%
Effective Tax Rate	29.0%	26.5%	36.5%	28.3%

Source: IGI Research, Company Financials, PSX

No. of shares: 1334mn

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