

Flash Note

Tuesday, 25 October 2016

Fertilizers

EFERT: Earnings improved by 3%YoY to PKR 2.15/share in 3QCY16

- Engro Fertilizers' (EFERT) profitability showed a +3%YoY rise to PKR 2.9bn (EPS PKR 2.15) in 3QCY16, bringing 9MCY16 cumulative earnings to PKR 5.7bn (EPS PKR 4.25), down by 43%YoY.
- During 3QCY16, company's revenue increased by +34%YoY to PKR 18.6bn. This is due to substantial increase in both Urea (+59% YoY to ~572k tons) and DAP (+135% YoY to ~75k tons).
- However, company's gross profit trimmed down by 27% during 3QCY16 due to increase in fuel gas price to PKR 600/mmbtu(effective from 1stSep-15) as compared to PKR 488/mmbtu.
- Other income augmented by +12xYoY to PKR 2.3bn in 3QCY16, owing to subsidy recognition. Moreover, company's finance cost dropped by 31%YoY to PKR 800mn in 3QCY16 due to continuousdebt repaymentand re-pricing of long term loan.

Recommendation

The scrip is currently trading at CY16E and CY17F P/E of 8.1x and 5.3x, respectively and offers +54% upside from its last closing. With our June-17target price of PKR 96/share, we maintain our 'BUY' call on the scrip.

Exhibit: Financial Highlights

PKR mn	3QCY16	3QCY15	YoY	9MCY16	9MCY15	YoY
Revenue	18,633	13,869	34%	41,625	51,928	-20%
Gross Profit	4,853	6,613	-27%	12,152	20,703	-41%
Selling and Distribution	1,645	955	72%	3,425	3,188	7%
Other Income	2,325	193	1108%	3,682	1,439	156%
Finance Cost	800	1,164	-31%	2,363	3,560	-34%
Profit before Tax	4,168	4,087	2%	8,643	13,612	-37%
Tax	1,306	1,298	1%	2,987	3,707	-19%
Profit after tax	2,863	2,789	3%	5,656	9,905	-43%
EPS	2.15	2.10		4.25	7.45	
DPS	-	1.5		2.00	3.00	
Key Ratios						
Gross Margin	26%	48%		29%	40%	
Net Margin	15%	20%		14%	19%	
Effective Tax Rate	31%	32%		35%	27%	

Source: IGI Research, Company Financials

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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)
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Time Horizon: Jun - 2017

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

DCF (Discounted Cash Flow)

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