

Day Break

Thursday, 18 April 2019

COMPANY UPDATE

Engro Fertilizers Limited

Fertilizer

Recommendation	BUY
Target Price: 31-Dec-19	82.4
Last Closing: 17-Apr-19	71.5
Upside:	15.2
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

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)	95.5 675.2
Exchange	KSE ALL
Price Info.	90D 06M 12M
Abs. Return	(4.2) (2.1) 0.6
Lo	70.1 69.1 69.1
Hi	78.2 82.9 82.9

Key Company Financials

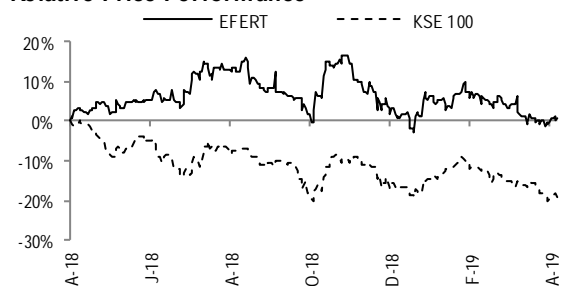
Period End: Dec

PKRbn	CY17A	CY18A	CY19E	CY20F
Total Revenue	77.1	109.2	103.8	109.0
Net Income	11.2	17.4	16.1	17.7
EPS (PKR)	8.4	13.0	12.0	13.3
DPS (PKR)	8.5	11.0	11.0	12.0
Total Assets	102	112	118	123
Total Equity	42	46	47	49

Key Financial Ratios

	CY17A	CY18A	CY19E	CY20F
ROE (%)	26.3	38.3	34.2	36.5
P/E (x)	8.6	5.5	5.9	5.4
P/B (x)	0.9	2.2	2.1	2.0
DY (%)	11.9	15.4	15.4	16.8

Relative Price Performance



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, PSX & IGI Research

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Fertilizer

EFERT: Earnings for 1QCY19 to drop by 18%YoY to PKR 2.39/share

- Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 1QCY19 on 19th April-19 where we expect earnings for 1QCY19 to decrease by 18%YoY to PKR 3.19bn (EPS: PKR 2.39).
- We have assumed urea and DAP sales of 431k tons and 62k tons for the quarter in review. Total offtake is expected to slide down (21%YoY) while growth in topline is attributed to increase in urea (+29%) and DAP prices (+21%).
- We have a liking for EFERT, based on our Dec-19 target price of PKR 82.4/share, offering +15% upside from its last closing. The company is currently trading at CY19E P/E of 5.9x and offers a dividend yield of 15.4%.

EFERT: Earnings for 1QCY19 to decrease by 18%YoY to PKR 3.19bn (EPS: PKR 2.39)

Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 1QCY19 on 19th April-19 where we expect earnings to decrease by 18%YoY to PKR 3.19bn (EPS: PKR 2.39). We have assumed urea and DAP sales of 431k tons and 62k tons for the quarter in review indicating a slowdown (20%YoY) in total offtake. However, we expect topline to increase by +11%YoY to PKR 20.2bn led by increase in urea and DAP prices. To mention, prices of urea and DAP have increased by +29%YoY and +21%YoY attributed to gas price hike, limited supply and PKR depreciation. Nevertheless, lower gross margins, increase in finance cost (increase in borrowings and high interest rates) and lower support from other income (lower cash equivalents) may dampen earnings in our view. Lastly, we expect company to announce nil dividend for the quarter as witnessed in the prior years.

Exhibit:

EFERT: 1QCY19 Result Highlights

Period End Dec- PKRmn	1QCY19E	1QCY18	YoY	4QCY18	QoQ
Net Sales	20,205	18,219	11%	39,981	-49%
Gross Profit	7,292	7,331	-1%	11,421	-36%
Other Op. Income	193	1,145	-83%	194	0%
EBIT	5,192	6,111	-15%	7,673	-32%
Finance Cost	696	524	33%	651	7%
Pre-Tax Profits	4,496	5,587	-20%	7,022	-36%
Taxation	1,304	1,697	-23%	1,857	-30%
Post-Tax Profits	3,192	3,890	-18%	5,164	-38%
EPS	2.39	2.91		3.87	
DPS	-	-		3.00	

Key Ratios

Gross Profit Margins	36.1%	40.2%	28.6%
Ebit Margins	25.7%	33.5%	19.2%
Effective Tax Rate	29.0%	30.4%	26.5%

Source: IGI Research, Company Financials, PSX

No. of shares: 1334mn

Recommendation

We have a liking for EFERT, based on our Dec-19 target price of PKR 82.4/share, offering +15% upside from its last closing. The company is currently trading at CY19E P/E of 5.90x and offers a dividend yield of 15.4%.

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