

Day Break

Tuesday, 24 April 2018

COMPANY UPDATE

Engro Fertilizers Limited

Fertilizer

Recommendation	NEUTRAL
Target Price:	80.6
Last Closing: 23-Apr-18	73.3
Upside:	10.0
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

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)	97.8 845.4
Exchange	KSE 100
Price Info.	90D 06M 12M
Abs. Return	5.8 15.2 17.0
Lo	67.4 61.0 51.9
Hi	73.3 73.3 73.3

Key Company Financials

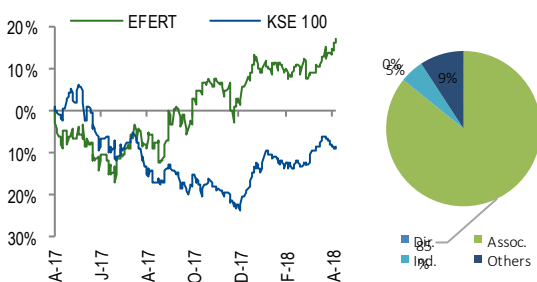
Period End: Dec

PKRbn	CY17A	CY18E	CY19F	CY20F
Total Revenue	77.1	78.4	80.9	82.1
Net Income	11.2	11.0	11.2	11.3
EPS (PKR)	8.4	8.2	8.4	8.4
DPS (PKR)	8.5	7.0	8.0	8.0
Total Assets	111.8	91.9	98.4	84.9
Total Equity	42.5	44.1	44.6	45.2

Key Financial Ratios

ROE (%)	26.3	24.9	25.0	24.9
P/E (x)	8.8	8.9	8.8	8.7
P/B (x)	2.4	2.3	2.2	2.2
DY (%)	11.6	9.6	10.9	10.9

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: 1QCY18 Analyst Briefing Takeaways

- Engro Fertilizers Limited (EFERT) held its analyst briefing on 23th-Apr-18 to discuss its financial results for 1QCY18 and future prospects of the company. The company reported profit after tax of PKR 3.9bn v/s PKR 1.6bn during the same period last year, an increase of +137%YoY.
- Net sales were up by +81%YoY to PKR 18.2bn attributable to high offtake in both phosphate and urea segment wherein urea and DAP sales were up by +16%/46%YoY to 497/54k tons. In addition, further support to topline came from growth in specialty fertilizer business within which combined offtake stood at 44k tons, up by +40%YoY.
- We have a 'HOLD' call on EFERT with Dec-18 based target price of PKR 80.6/share, offering +10% upside from its last closing. The company is currently trading at FY18E P/E of 8.9 x and offers a dividend yield of 9.6%.

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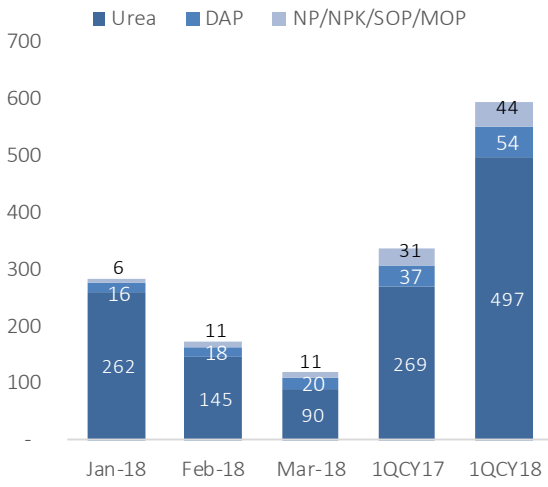
High pricing levels and strong demand triggered offtake during the quarter; Net sales up by +81%YoY to PKR 18.2bn

Net sales were up by +81%YoY to PKR 18.2bn attributable to high offtake in both phosphate and urea segment wherein urea and DAP sales were up by +16%/46%YoY to 497/54k tons. For DAP in particular, high sales were due to pre-buying in anticipation of increase in international prices and demand from farmers driven by coupon based subsidy. In addition, further support to topline came from growth in specialty fertilizer business within which combined offtake stood at 44k tons, up by +40%YoY.

Major highlights of analyst briefing as stated by the management:

- The company has a capex plan of PKR 2.5-3bn (debt-financed) which includes compressor modification and removal of CO₂ gas to enhance gas supply for its Enven plant, thereby achieving efficiency gain (8-10 mmscfd).
- The management has put forth various proposal for the upcoming budget which includes a) removal of urea subsidy (~PKR 8bn outstanding amount) and subsequent price increase; and b) reduction in input sales tax (PKR1-1.5bn)
- On demand-supply situation, the management expects demand for urea to remain stable on average around 5.7mn tons but might fluctuate slightly depending on water supply issue. Further, pricing levels are expected to remain stable along with sustained production levels thereby keeping demand- supply in balance.
- On pricing front, international urea prices are expected to remain soft owing to new capacity additions and low crop prices.
- For DAP, demand is expected to hover around 2mn tons, expected to decrease slightly owing to increase in local prices.

Urea, DAP and NP/NPK/MOP/SOP Offtake (Ktons)



- The company continues to accrue GIDC on non-concessionary gas while no accrual or payment is being made for GIDC on concessionary gas. Moreover, outstanding receivable from GoP amounts to PKR 7.7bn on subsidy.

Recommendation

We have a 'HOLD' call on EFERT with Dec-18 based target price of PKR 80.6/share, offering +10% upside from its last closing. The company is currently trading at FY18E P/E of 8.9 x and offers a dividend yield of 9.6%.

Source: Bloomberg, PSX & IGI Research

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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: Dec – 2018

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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