

Day Break

Thursday, 19 April 2018

COMPANY UPDATE

Engro Fertilizers Limited

Fertilizer

Recommendation	BUY
Target Price:	80.6
Last Closing: 18-Apr-18	71.9
Upside:	12.1
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)	96.0	830.5	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	4.4	18.6	21.2
Lo	67.4	60.7	51.9
Hi	72.0	72.0	72.0

Key Company Financials

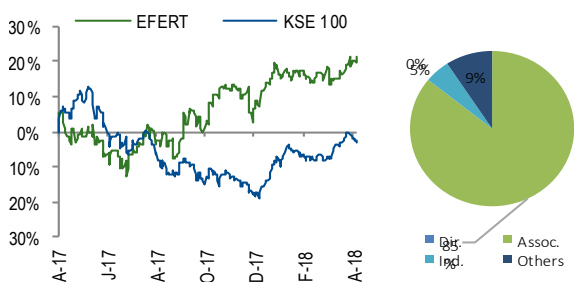
Period End: Dec

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)	8.6	8.7	8.6	8.5
P/B (x)	2.3	2.3	2.2	2.2
DY (%)	11.8	9.7	11.1	11.1

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 1QCY18 expected at PKR 2.49/share

- Engro Fertilizers Limited (EFERT) is scheduled to announce its financial result for 1QCY18 on 20th Apr-18, wherein we expect earnings for the quarter to increase by +101%YoY to PKR 3.4bn (EPS: PKR 2.49/share)
- We attribute the incline in earnings to a) increase in overall offtake level to increase by +56%YoY to ~572k tons and b) improved pricing dynamics amid low inventory levels
- We have a 'BUY' call on the scrip based on a Dec-18 target price of PKR 80.6/share, offering +12% upside from its last closing. The company is currently trading at CY18E P/E of 8.7x and offers a dividend yield of 9.7%.

Earnings for 1QCY17 to increase by +101%YoY to PKR 3.3bn (EPS: PKR 2.49/share)

Engro Fertilizers Limited (EFERT) is scheduled to announce its financial result for 1QCY18 on 20th Apr-18, wherein we expect earnings for the quarter to increase by +101%YoY to PKR 3.3bn (EPS: PKR 2.49). We attribute the incline in earnings to a) increase in overall offtake level to increase by +56%YoY to ~572k tons and b) improved pricing dynamics amid low inventory levels. In addition, we also expect the company to declare a cash dividend of PKR 2.00/share for the quarter.

Exhibit:

EFERT Result Highlights

Period End Dec- PKRmn	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales	16,316	10,064	62%	28,656	-43%
Gross Profit	6,518	3,493	87%	8,346	-22%
Selling / Dist.	1,623	1,291	26%	2,344	-31%
Other Op. Income	1,167	1,214	-4%	1,602	-27%
EBIT	5,404	2,958	83%	6,687	-19%
Finance Cost	651	685	-5%	670	-3%
Pre-Tax Profits	4,753	2,273	109%	6,017	-21%
Taxation	1,426	616	131%	1,813	-21%
Post-Tax Profits	3,327	1,657	101%	4,204	-21%
EPS	2.49	1.24		3.15	
DPS	2.00	1.50		3.00	

Key Ratios

Gross Profit Margins	40%	35%	29%
EBIT Margins	33%	29%	23%
Effective Tax Rate	30%	27%	30%

Source: IGI Research, Company Financials, PSX

No. of shares :1334mn

Net sales for the quarter to clock in at PKR 16.3bn, up by +62%YoY

The total offtake during the quarter is expected to climb by +56%YoY to 572k tons, wherein urea offtake stands at ~499k tons with growth in DAP offtake slowing down at ~44k tons (+20%YoY) after witnessing hefty offtake in the previous quarter. In addition, the company exported urea of 13k tons during Jan-Feb 18 period, thereby lending additional support to the top line. Hence, we expect total net sales for the 1QCY18 to clock in at PKR16.3bn, up by +62%YoY.

Low inventory level and improved retention prices to elevate margins

Moreover, recently pricing dynamics have improved with retail prices of urea hovering in the range of PKR 1360-1380/bag as inventory levels have reached comfortable levels. For EFERT, inventory level is expected at 175k tons v/s 464k tons compared to the preceding period last year. Therefore, with company curtailing discounts, we expect retention price to increase (+5%YoY) resulting in elevated margins for the company.

Exhibit:
Urea, DAP and NP/NPK offtake (k tons)

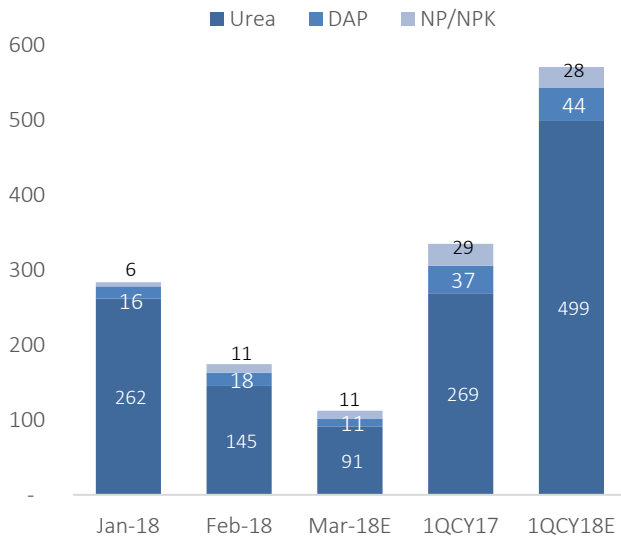
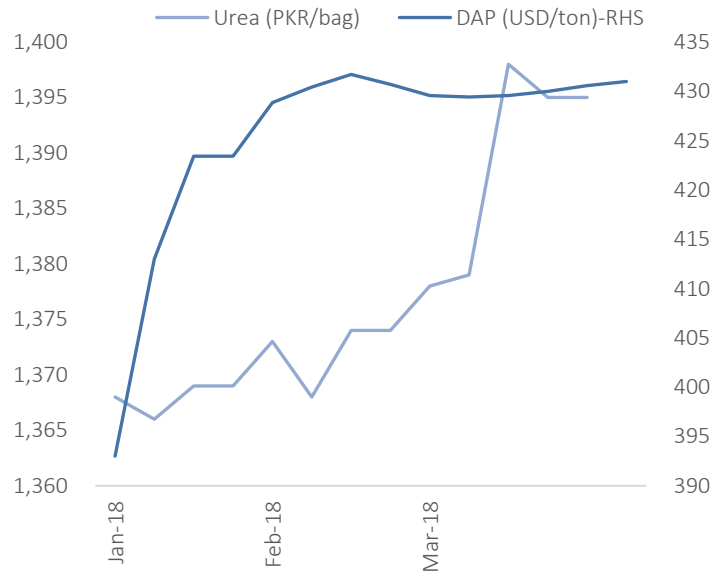


Exhibit:
Local urea (PKR/bag) and international DAP prices (USD/ton)



Source: IGI Research, Company Financials, Bloomberg

Recommendation

We have a **'BUY'** call on the scrip based on a Dec-18 target price of PKR 80.6/share, offering +12% upside from its last closing. The company is currently trading at CY18E P/E of 8.7x and offers a dividend yield of 9.7%.

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