

Day Break

Tuesday, 14 February 2017

COMPANY UPDATE

ENGRO FERTILIZER LIMITED

FERTILIZER

Recommendation		BUY
Target Price		85.9
Last Closing	13-Feb-17	69.2
Upside		24.1

Market Data

Bloomberg Tkr.		EFERT PA
Shares (mn)		1,330.9
Free Float Shares (mn)		598.9
Free Float Shares (%)		45.0%
Market Cap (PKRbn USDmn)	92.2	879.2
Exchange		KSE 100
Price Info.	90D	180D
Abs. Return	9.8	0.7
Low	62.7	61.5
High	73.3	73.3
		77.8

Key Company Financials

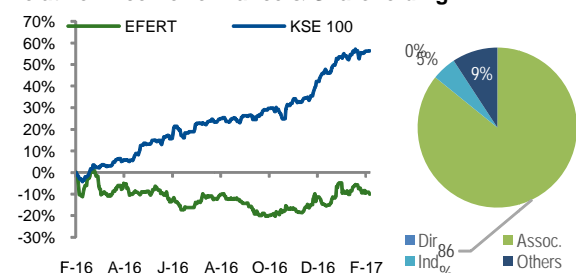
Period End: Dec

PKRbn	CY15A	CY16A	CY17E	CY18F
Total Revenue	87.6	69.5	75.6	78.1
Net Income	15.03	9.0	10.9	12.3
EPS (PKR)	11.3	6.8	8.2	9.3
DPS (PKR)	6.0	7.0	5.8	6.5
Total Assets	105.4	94.1	100.5	90.6
Total Equity	42.5	43.4	46.7	50.4

Key Financial Ratios

ROE (%)	35.3	20.8	23.4	24.4
P/E (x)	6.1	10.2	8.4	7.5
P/B (x)	2.2	2.1	2.0	1.8
DY (%)	8.7	10.1	8.4	9.4

Relative Price Performance & Shareholding



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, KSE 100 & IGI Research

Anjali Kukreja

MT Research

anjali.kukreja@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Fertilizer

EFERT: Analyst Briefing Takeaway; Earnings review

- Engro Fertilizer Limited (EFERT) posted earnings of PKR 9.02bn (EPS PKR 6.78) in CY16, down by 40%YoY as compared to PKR 15.03bn (EPS PKR 11.29) in same period last year.
- The company's management during the briefing highlighted possible export of 100k tons of urea priced around USD 240-250/ton. Although the management has not yet confirmed the possible destination of exports but as per our knowledge, EFERT along with FATIMA have already committed to export of prilled urea to two traders for shipment to East Africa and Latin Americas at USD 240-250/ton.
- We maintain our "BUY" call on EFERT with our Dec-17 target price of PKR 86/share, offering a sizeable 24% upside. The company is currently trading at a CY17E P/E of 8.4x and dividend yield of 8.4%.

Earnings down by 40%YoY to 6.78/share

Engro Fertilizer Limited (EFERT) posted earnings of PKR 9.02bn (EPS PKR 6.78) in CY16, down by 40%YoY as compared to PKR 15.03bn (EPS PKR 11.29) in same period last year. This dismal performance of the company is attributable to a) 21%YoY decline in revenue due to lower retention prices of urea/DAP (Post subsidy measure and steep discounts offered to offload excess inventory) along with company's strategy to not pass on their selling cost to their customers, b) +23%YoY increase in selling & distribution expenses on the account of higher warehousing charges. However, 32%YoY decrease in financial charges as company re-priced its long term liabilities and +4.76xYoY increase in other income on the back of PKR 3.05bn subsidy for urea/DAP, supported bottom-line. Company also announced a final cash dividend of PKR 2.5/share in 4QCY16, taking full year payout to PKR 7.00/share, which is +16%YoY higher compared to dividend of PKR 6.00/share last year.

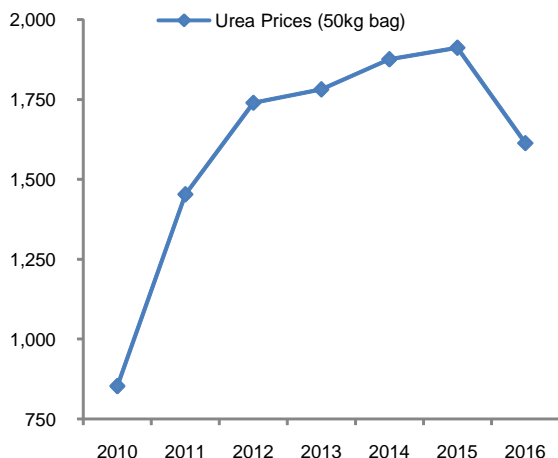
Exhibit:

Financial Highlights

PKRmn	4QCY16	4QCY15	YoY	CY16	CY15	YoY
Net Sales	27,893	35,687	-22%	69,519	87,615	-21%
Gross Profit	4,959	11,477	-57%	17,111	32,180	-47%
EBIT	5,505	8,804	-37%	16,511	25,757	-36%
Finance Cost	773	1,028	-25%	3,136	4,588	-32%
EBT	4,732	7,776	-39%	13,375	21,169	-37%
PAT	3,369	5,342	-37%	9,025	15,027	-40%
EPS	2.53	4.01		6.78	11.29	
DPS	2.5	3.0		7.0	6.0	
Key Ratios						
Gross Margin	18%	32%		25%	37%	
Net Margin	12%	15%		13%	17%	

Source: IGI Research, Company Financials

Urea Local Price (PKR/bag)



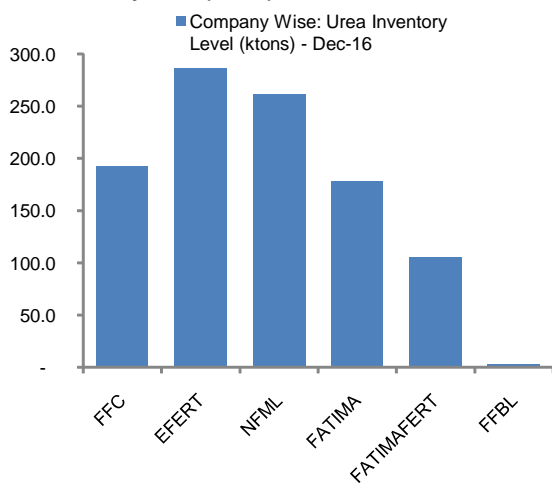
Lower DAP margins dented overall 4QCY16 company’s gross margins to 18%

Company’s gross margins declined to 18% in 4QCY16 as compared to 26% in 3QCY16. As per management note, lower gross margins during the 4QCY16 is due to low DAP margins combined with relatively higher sales volume of DAP during the 4QCY16.

Urea exports expected at 100k tons; possible destinations include East Africa and Latin America

The company’s management during the briefing highlighted possible exports of 100k tons of urea priced around USD 240-250/ton. Although the management has not yet confirmed the possible destination of exports but as per our knowledge, EFERT along with FATIMA have already committed to export of prilled urea to two traders for shipment to East Africa and Latin America at USD 240-250/ton. Considering price tag of USD 250/ton and 100k ton quantity estimated EPS accretion for EFERT stands at PKR 1.04/share (~13% of CY17E EPS). Going forward, management expects further allowance of urea export in order to reduce inventory level. We have done a sensitivity analysis to gauge the impact of price and offtake on earnings for CY17.

Urea inventory Level(ktons)



Exhibit

Export EPS accretion

EXPORT PRICE (USD/ TON)		240.00	245.00	250.00
Export-kTons	BASE EPS (PKR/SHARE)	8.21	8.21	8.21
	100.00	0.97	1.01	1.04
	95.00	0.92	0.96	0.99
	90.00	0.88	0.91	0.94
	85.00	0.83	0.86	0.88

Source: IGI Research

Outlook

Looking ahead, with election year around the corner we see high probability of government continuing urea subsidy in FY17-18, subsequently leading to stable demand outlook for urea. Moreover, we believe dividend payout to remain intact during current year as management is not expecting any major capital expenditure during current year.

Recommendation

We maintain our “BUY” call on EFERT with our Dec-17 target price of PKR 86/share, offering a sizeable 24% upside. The company is currently trading at a CY17E P/E of 8.4x and dividend yield of 8.4%.

Source: NFDC & IGI Research

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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 - 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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaquat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter, Opp. Radio
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44