Day Break

Monday, 12 February 2018

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COMPANY UPDATE

Engro Fertilizers Limited
Fertilizer

Recommendation	**BUY**
Target Price:	83.6
Last Closing: 9-Feb-18	69.7
Upside:	19.9
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	Dec-18

Market Data

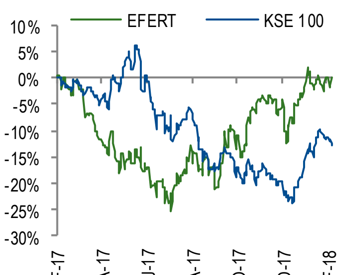
Bloomberg Tkr.		EFERT PA
Shares (mn)		1,335.3
Free Float Shares (mn)		600.9
Free Float Shares (%)		45.0%
Market Cap (PKRbn | USDmn)	93.1	841.4
Exchange		KSE 100

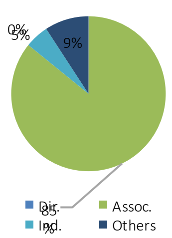
Price Info.	90D	180D	365D
Abs. Return	4.5	17.0	(0.2)
Lo	61.0	54.9	51.9
Hi	71.0	71.0	71.0

Key Company Financials
Period End: Dec

PKRbn	**CY16A**	**CY17A**	**CY18E**	**CY19F**
Total Revenue	69.5	63.0	76.0	80.2
Net Income	9.0	10.1	10.2	11.7
EPS (PKR)	6.8	7.6	7.6	8.8
DPS (PKR)	7.0	8.5	5.0	6.0
Total Assets	102.4	98.5	94.9	96.8
Total Equity	41.3	42.3	48.3	52.0
Key Financial Ratios				
ROE (%)	21.9	23.9	21.1	22.5
P/E (x)	10.3	9.2	9.1	8.0
P/B (x)	2.3	2.2	1.9	1.8
DY (%)	10.0	12.2	7.2	8.6

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: CY17 earnings reported at PKR 8.36/share, up by +20%YoY

- Engro Fertilizers Limited (EFERT) held its analyst briefing on 9th-Feb-18 to discuss its financial results for CY17 and future prospects of the company. The company reported profit after tax of PKR 11.1bn v/s PKR 9.28bn during last year, an increase of +20%YoY. The company also declared cash dividend of PKR 3.0/share along with the result, taking full year cash dividend to PKR 8.5/share.
- Net sales were up by +11%YoY to PKR 77.1bn, taking into account contribution from Eximp business. However, on standalone basis, sales stood at PKR 63.0bn down by 9%YoY
- We maintain a **'BUY'** call on EFERT with Dec-18 based target price of PKR 83.6/share, offering +20% upside. The company is currently trading at FY18E P/E of 9.1 x and offers a dividend yield of 7.2%.

Engro Fertilizers Limited (EFERT) held its analyst briefing on 9th-Feb-18 to discuss its financial results for CY17 and future prospects of the company. The company reported profit after tax (consolidated basis) of PKR 11.1bn v/s PKR 9.3bn during last year, an increase of +20%YoY. On standalone basis, profit after tax was up by +12%YoY to PKR 25bn. Improvement in earnings was due to a) higher offtake enhanced by urea exports of 223k tons; b) decrease in finance cost owing to loan re-pricing and repayments; and c) one-off adjustment of PKR 0.8bn (largely driven by gain on disposal of land).

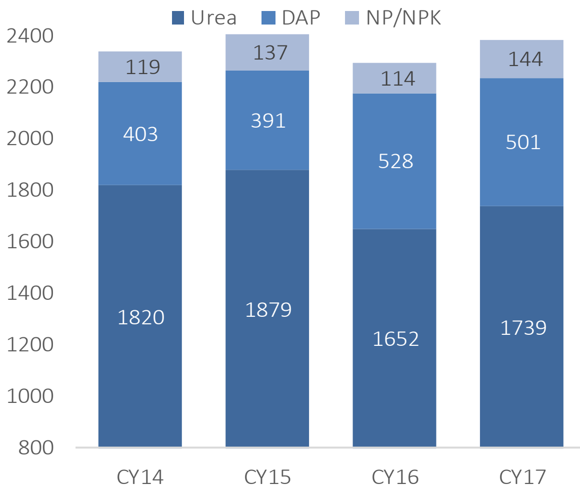
Strong demand triggered offtake during the year; Net sales up by +11%YoY to PKR 77bn

Taking into account contribution from Eximp business, net sales were up by +11%YoY to PKR 77.1bn. However, on standalone basis, net sales stood at PKR 63.0bn down by 9%YoY. Higher offtake in urea led by improved farmer economics helped in boosting the demand. However, DAP sales were down by 6.2%YoY to 501k tons as company curtailed its imports owing to negative margins due to price capping during the 1HCY17.

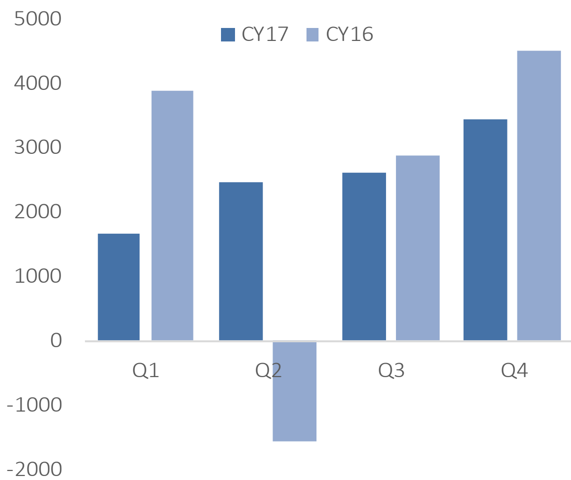
Major highlights of analyst briefing as stated by the management:

- The company was able to maintain its share of 30% in urea market with domestic sales reaching 1.74mn tons. However, in DAP segment, EFERT's share was down from 24% to 21% with offtake recorded at 501k tons (down by 6.2%YoY).
- The phosphates business is now under FTR regime (previously NTR), and is handled by its subsidiary owing to the said changes.
- Currently, owing to low pressure from MARI the company is incurring daily capex on its compressor.
- The management prefers the option of reducing sales tax in urea to 2% along with the removal of subsidy (subsequent price increase of PKR 1450/bag) and has been pushing for it.
- On demand-supply situation, the management expects demand for urea to hover around 5.6-5.7mn tons during the current year while demand for DAP

Urea, DAP and NP/NPK Offtake (Ktons)



Year-wise comparision of quarter profitabilty



Source: Bloomberg, PSX & IGI Research

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can be stretched to 2.3-2.4mn tons. In addition, the supply levels will remain stable, thus keeping demand-supply intact.

- For the continuation of gas supply of 26mmcfd (contract to expire in Feb-18), EFERT and MARI have agreed to all the terms; however, the proposal is underway for approval by OGRA.
- With respect to urea exports (total exports of 78k tons), the company has an allotted share of 12.4k tons out of 35k tons, which the management expects to fulfill within a month or so.
- The company continues to accrue the GIDC on both the concessionary and non-concessionary gas. Moreover, outstanding receivable from GoP amounts to PKR 7.3bn on subsidy.
- Besides this, the management keeps on evaluating the feasibility of undergoing DAP production subject to a suitable rate of return (IRR).

Recommendation

We maintain a **'BUY'** call on EFERT with Dec-18 based target price of PKR 83.6/share, offering +20% upside. The company is currently trading at FY18E P/E of 9.1 x and offers a dividend yield of 7.2%.

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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)
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 – 2018

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 mightunfavorably 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.

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