

Day Break

Friday, 22 April 2016

Company Update

Engro Fertilizer Limited

Fertilizer

Recommendation	BUY
Target Price	97.0
Last Closing	69.0
Upside	41%

Market Data

Bloomberg Tkr.	EFERT PA
Shares (mn)	1,330.9
Market Cap (PKRbn USDmn)	91.8 876.6
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(8.8)	(21.6)	(14.9)
Low	68.4	68.4	68.4
High	81.2	92.3	99.4

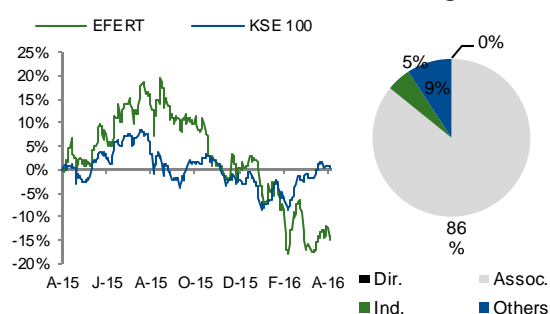
Key Company Financials

PKRbn	CY14A	CY15A	CY16E	CY17F
Total Revenue	61.4	87.6	82.5	90.9
Net Income	8.2	15.0	11.0	15.4
EPS (PKR)	6.2	11.3	8.2	11.6
DPS (PKR)	3.0	6.0	3.3	4.8
Total Assets	111.5	102.6	97.4	101.1
Total Equity	34.5	42.5	49.1	58.1

Key Financial Ratios

ROE (%)	24%	35%	22%	27%
P/E (x)	11.2	6.1	8.4	6.0
P/B (x)	2.7	2.2	1.9	1.6
DY (%)	4.3	8.7	4.8	7.0

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

Analyst

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Engro Fertilizers Limited

Earning clocking in at PKR 1.14/share in 1QCY16, down by 50%YoY

- Engro Fertilizers' (EFERT) board meeting is scheduled on 25th Apr-16 to announce financial results for 1QCY16. We expect the company to record profitability of PKR 1.5bn (EPS PKR 1.14) in 1QCY16, moving down by 50%YoY.
- Gross Margins are forecasted to drop to 35% in 1QCY16 as compared to 38% in same period last year, mainly gas price increase in Sept-15 which was not passed on to the consumer and discounts offered on Urea and DAP due to higher inventory levels and weaker cash position of farmers.
- EFERT is currently trading at CY16E P/E multiple of 8.2x. With our Dec-16 target price of PKR 97/share, scrip provides upside of +41% along with 4.8% dividend yield. Thus we recommend 'BUY' call on the stock.

Earnings taking a 50%YoY dip to PKR 1.14/share in 1QCY16

Engro Fertilizers' (EFERT) board meeting is scheduled on 25th Apr-16 to announce financial results for 1QCY16. We expect the company to record profitability of PKR 1.5bn (EPS PKR 1.14) in 1QCY16, moving down by 50%YoY. We base our estimates on a) 41%YoY slump in Urea offtake to 286k tons, b) continued discounts of Urea prices post gas price hike in Sept-15, c) +64%YoY increase in DAP offtake to 59k tons, d) 23%YoY decrease in DAP prices to an average of PKR 2900/ton, due to steep discounts offered to offload inventory, e) continuation of 60mmcf/d gas supply, and f) 33% drop in finance cost backed by constant deleveraging and lower interest rates.

70 cents Gas Cost Providing Some Respite

Gross Margins are forecasted to drop to 35% in 1QCY16 as compared to 38% in same period last year, largely due to gas price increase in Sept-15, which hasn't been passed on to the consumer and discounts offered on Urea and DAP due to higher inventory levels and weaker cash position of farmers. It is pertinent to mention here that without the provision of 70 cents gas to the company, gross margins and earnings would have declined to -1% and PKR -0.84/share in 1QCY16, respectively.

Recommendation

EFERT is currently trading at CY16E P/E multiple of 8.2x. With our

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Dec-16 target price of PKR 97/share, scrip provides upside of +41% along with 4.8% dividend yield. Thus we recommend 'BUY' call on the stock.

Exhibit: Financial Highlights

PKR mn	1QFY16E	1QCY15	YoY	4QY15	QoQ
Revenue	12,023	17,673	-32%	35,687	-66%
Gross Profit	4,161	6,770	-39%	11,477	-64%
Selling and Distribution	757	1,096	-31%	2,265	-67%
Other Income	95	775	-88%	268	-64%
Finance Cost	841	1,262	-33%	1,028	-18%
Profit before Tax	2,267	4,592	-51%	7,557	-70%
Tax	753	1,533	-51%	2,434	-69%
Profit after tax	1,514	3,059	-50%	5,123	-70%
EPS	1.14	2.30		3.83	
<i>Key Ratios</i>					
Gross Margin	35%	38%		32%	
Net Margin	13%	17%		14%	
Effective Tax Rate	33%	33%		32%	

Source: IGI Research, Company Financials

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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