

Day Break

Wednesday, 07 February 2018

COMPANY UPDATE

Engro Fertilizer Limited Fertilizer

Recommendation	BUY
Target Price:	83.6
Last Closing: 6-Feb-18	68.5
Upside:	21.9
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)	91.5 826.2
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	2.1 14.8 (2.9)
Lo	61.0 54.9 51.9
Hi	71.0 71.0 71.0

Key Company Financials

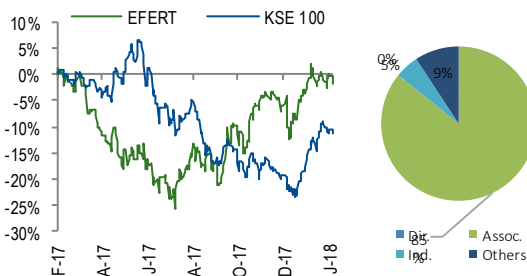
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	69.5	73.8	76.0	80.2
Net Income	9.0	10.0	10.2	11.7
EPS (PKR)	6.8	7.5	7.6	8.8
DPS (PKR)	7.0	7.5	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	23.6	21.1	22.5
P/E (x)	10.1	9.2	9.0	7.8
P/B (x)	2.2	2.2	1.9	1.8
DY (%)	10.2	10.9	7.3	8.8

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 4QCY17 expected at PKR 2.46/share

- Engro Fertilizers Limited (EFERT) is scheduled to announce its financial result for CY17 on 8th Feb-18, wherein we expect earnings for the 4QCY17 to decrease by 27%YoY to PKR 3.3bn (EPS: PKR 2.46/share).
- We attribute the decline in earnings to a) decrease in overall offtake level by 19%YoY to 779k tons and b) reduction in urea subsidy by PKR56/bag.
- We have a 'BUY' call on the scrip based on a Dec-18 target price of PKR 83.6/share, offering +22% upside from its last closing. The company is currently trading at CY18F P/E of 9.0x and offers a dividend yield of 7.3%

Earnings for 4QCY17 to decrease by 27%YoY to PKR 3.3bn (EPS: PKR 2.46/share)

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Exhibit:

EFERT Result Highlights

Period End Dec- PKRmn	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Net Sales	26,078	28,627	-9%	73,810	69,519	6%
Gross Profit	6,874	6,503	6%	21,491	17,111	26%
Selling / Dist.	2,139	1,953	10%	7,040	6,702	5%
Other Op. Income	1,057	1,519	-30%	5,321	8,143	-35%
EBIT	5,241	6,088	-14%	17,612	17,192	2%
Finance Cost	542	1,158	-53%	2,520	3,136	-20%
Pre-Tax Profits	4,700	4,930	-5%	15,092	14,056	7%
Taxation	1,410	408	246%	5,106	4,351	17%
Post-Tax Profits	3,290	4,522	-27%	9,986	9,705	3%
EPS	2.46	3.39		7.48	7.27	
DPS	2.00	2.75		7.50	7.90	

Key Ratios

Gross Profit Margins	26%	23%	29%	25%
EBIT Margins	20%	21%	24%	25%
Effective Tax Rate	30%	8%	34%	31%

Source: IGI Research, Company Financials, PSX

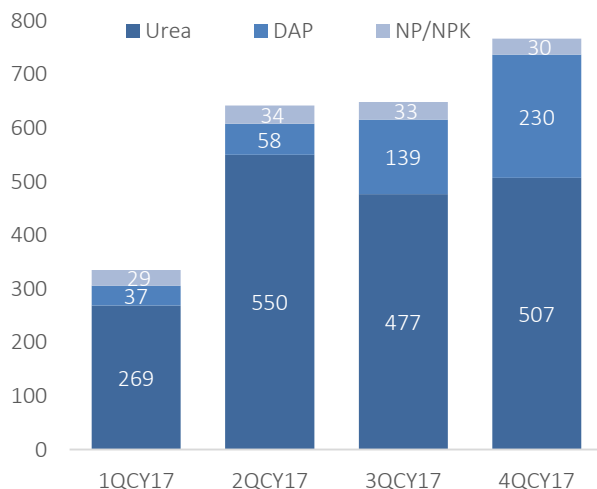
Net sales for the quarter to clock in at PKR 26.1bn, down by 9%YoY

The total offtake during the quarter stands at 779k tons primarily comprising of urea and DAP, each reporting a decline of 20%/21%YoY to 507/230k tons. Similarly, NP/NPK sales were also down by 26%/30% YoY to 18/12k tons. Hence, net sales are expected at PKR 26.1bn (down by 9%YoY), with full year sales approaching at PKR 73.8bn.

Reduction in urea subsidy to stifle other income

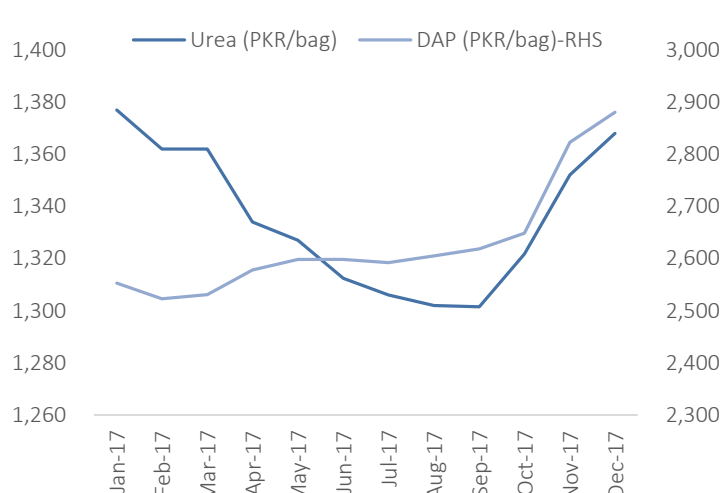
Other income for 4QCY17 is expected to decrease by 30%YoY to PKR 1.1bn primarily owing to a reduction of PKR 56/bag in urea subsidy. As a result, for the whole year we expect other income to translate into PKR 5.2bn (down by 35%YoY), taking into account elimination of subsidy in DAP during the 1HCY17.

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



Source: IGI Research, Company Financials, Bloomberg

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



Recommendation

We have a **'BUY'** call on the scrip based on a Dec-18 target price of PKR 83.6/share, offering +22% upside from its last closing. The company is currently trading at CY18F P/E of 9.0x and offers a dividend yield of 7.3%.

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Recommendation	Rating System
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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):

DCF (Discounted Cash Flow)

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