

Day Break

Thursday, 17 October 2019

COMPANY UPDATE

Engro Fertilizers Limited

Fertilizer

Recommendation **NEUTRAL**

Target Price: Dec/20 71.4

Last Closing: 16-Oct-19 69.0

Upside: 3.4

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 15M

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) 92.1 | 589.6

Exchange KSE ALL

Price Info. 90D 06M 12M

Abs. Return 6.1 (2.9) (2.7)

Lo 60.9 60.9 60.9

Hi 72.0 72.0 82.9

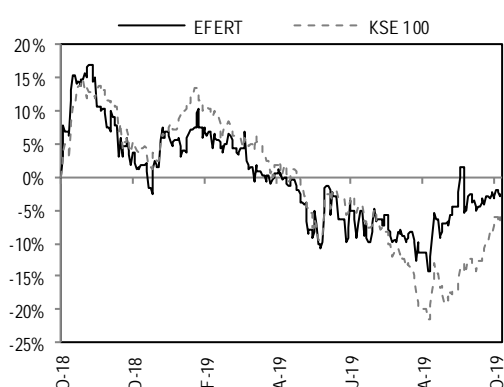
Key Company Financials

Period End: Dec

PKRbn	CY18a	CY19e	CY20f	CY21f
Total Revenue	109.2	107.5	114.8	117.9
Net Income	17.4	15.5	18.7	19.2
EPS (PKR)	13.0	11.6	14.0	14.4
DPS (PKR)	11.0	11.0	13.0	13.0
Total Assets	117.7	123.9	115.8	111.2
Total Equity	45.5	46.4	47.7	49.5

Key Financial Ratios

ROE (%)	39.6	33.8	39.7	39.5
P/E (x)	5.3	5.9	4.9	4.8
P/B (x)	2.0	2.0	1.9	1.9
DY (%)	15.9	15.9	18.8	18.8

Relative Price Performance


Source: Bloomberg, PSX & IGI Research

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Fertilizer

EFERT: Expecting 42%YoY drop in earnings to PKR 2.22/share for 3QCY19

- Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 3QCY19 on 18th Oct-19 where we expect earnings for 3QCY19 to decrease by 42%YoY to PKR ~3.0bn (EPS: PKR 2.22).
- We attribute the decrease in profitability for the 3QCY19 to estimated decline in total offtake by 16%YoY, weak margins and perhaps tax reversal of PKR 800mn
- We have a liking for EFERT, based on our Dec-20 target price of PKR 71.4/share, offering +5% upside from its last closing. The company is currently trading at CY19E P/E of 6.0x and offers a dividend yield of 16.0%.

EFERT: Likely occurrence of tax reversal and drop in margins to suppress earnings

Engro Fertilizers Company Limited (EFERT) is scheduled to announce its financial result for 3QCY19 on 18th Oct-19 where we expect earnings to decrease by 42%YoY to PKR ~3.0bn (EPS: PKR 2.22). Accordingly, 9MCY19 earnings are expected to slump by 17%YoY to PKR 10.1bn (EPS: PKR 7.61). We attribute the decrease in profitability for the 3QCY19 to estimated decline in total offtake by 16%YoY, weak margins following increase in gas prices and lagged price pass-over in late Sep-19. In addition, increase in tax liability arising from fixed tax rate at 29% may also drag earnings (impact of PKR 0.60/share considering PKR 800mn reversal), in our view. We estimate net sales to drop by 15%YoY to PKR 23.7bn as we estimate urea and DAP sales to decrease by 10%/38%YoY. Further erosion to earnings may also stem from 66%YoY increase in finance cost to PKR ~0.9bn (increase in borrowings and high interest rates). We expect company to announce dividend of PKR 2.0/share for the quarter.

Exhibit:

EFERT: 3QCY19 Result Highlights

Period End Dec- PKRmn	3QCY19E	3QCY18	YoY	9MCY19E	9MCY18	YoY
Net Sales	24,071	28,099	-14%	74,714	69,215	8%
Gross Profit	8,170	9,875	-17%	24,285	23,896	2%
Selling / Dist.	1,696	1,975	-14%	5,077	5,246	-3%
Other Op. Income	401	214	88%	2,840	1,868	52%
EBIT	6,188	7,362	-16%	19,783	18,680	6%
Finance Cost	886	534	66%	2,905	1,420	2x
Pre-Tax Profits	5,302	6,829	-22%	16,878	17,260	-2%
Taxation	2,338	1,729	35%	6,729	5,011	34%
Post-Tax Profits	2,964	5,100	-42%	10,149	12,249	-17%

EPS 2.22 3.82 7.61 9.18

DPS 2.00 4.00 7.00 8.00

Key Ratios

Gross Profit Margins	33.9%	35.1%	32.5%	34.5%
Ebit Margins	25.7%	26.2%	26.5%	27.0%
Effective Tax Rate	44.1%	25.3%	39.9%	29.0%

Source: IGI Research, Company Financials, PSX

No. of shares: 1334mn

Recommendation

We have a liking for EFERT, based on our Dec-20 target price of PKR 71.4/share, offering +5% upside from its last closing. The company is currently trading at CY19E P/E of 6.0x and offers a dividend yield of 16.0%.

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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)
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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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