

# Flash Note

Monday, 25 April 2016

## Fertilizers

### EFERT: Earnings Plummeted by 31%YoY to PKR 1.59/share

- Engro Fertilizers' (EFERT) profitability dropped by 31%YoY to PKR 2.1bn (EPS PKR 1.59) in 1QCY16 as compared to PKR 3.1bn (EPS PKR 2.30) in the same period last year.
- Revenue declined by 29%YoY to PKR 12.6bn in 1QCY16, which in our view is on the back of 41%YoY decline in urea offtake, as well as discounts offered on Urea and DAP.
- Gross Margin inched up by 87bpsYoY to 39% in 1QCY16as compared to 38% in same period last year, likely due concessionary gas available since 16<sup>th</sup> Mar-15.
- Other income declined by a massive 65%YoY to PKR 273mn in 1QCY16, on the back of GIDC payments which started in 2QCY15, resulting in decline in excess cash holdings.
- Finance cost dropped by impressive 41%YoY to PKR 751mn in 1QCY16, due to continuous repayment of long term debt and lower interest rates

### Recommendation

The scrip is currently trading at CY15E P/E of 8.4x and offers +40% upside from last close. With our Dec-16 TP of PKR 97/share, we maintain our 'BUY' call on the scrip.

#### Exhibit: Financial Highlights

PKR mn	1QFY16	1QCY15	YoY	4QY15	QoQ
Revenue	12,605	17,673	-29%	35,687	-65%
Gross Profit	4,938	6,770	-27%	11,477	-57%
Selling and Distribution	855	1,096	-22%	2,265	-62%
Other Income	273	775	-65%	268	2%
Finance Cost	751	1,262	-41%	1,028	-27%
Profit before Tax	3,088	4,592	-33%	7,557	-59%
Tax	967	1,533	-37%	2,434	-60%
Profit after tax	2,121	3,059	-31%	5,123	-59%
EPS	1.59	2.30		3.83	
Key Ratios					
Gross Margin	39%	38%		32%	
Net Margin	17%	17%		14%	
Effective Tax Rate	31%	33%		32%	

Source: IGI Research, Company Financials

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### Analyst Certification

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### Valuation Methodology

The analyst<sup>^</sup> 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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