

May 27-2015

Engro Fertilizer — EFERT-Target price of RS: 105

Engro Fertilizers Limited is a subsidiary of Engro Corporation and a renowned name in Pakistan's fertilizer industry. Engro holds a vast, production and marketing infrastructure and produces leading fertilizer brands optimized for local cultivation needs and demand. Engro is also a leading importer and seller of Phosphate products, which are marketed extensively across Pakistan as phosphatic fertilizers.

Company performance:

- The company's urea production for the quarter stood at 486 kt as compared to 456 KT in the first quarter of the last year I.E. an increase of 6.6% mainly due to continuous operation of both plant during the first quarter.
- The Company' sold 481 KT of urea Vs 451 KT in the first quarter of 2014 showing a growth of 6.6% and locking in an overall urea market share of 32% and a branded urea share of 40%.
- The Gross profit for the period was PKR 6,770 Million as compared to PKR 5652 Million in the same period last year. This increase was on account of higher sales volume and implementation of concessionary pricing effective from March 16 2015.
- Finance cost was also significantly lower than last year as a result of IFC Loan conversion, Loan repayment, Lower KIBOR and better cash flow.
- As a result of the above, the Company has doubled its Net Profit to PKR 3,058 million from PKR 1,437 million for the same period last year which has resulted in an EPS of PKR 2.30/Share Vs PKR 1.12/Share in the comparative period last year.
- Following the approval of the ECC in December 2014, the Company continued to receive 60MMSCFD additional gas from Mari Shallow throughout first quarter 2015. Further, as part of the said ECC decision, the Company was also required to install compressors for Guddu Power Plant (Genco 11) at its own cost. Guddu compressor project is underway and is expected to be completed within the upcoming quarter. In March 2015, ECC approved additional 3 MMSCFD gas to the Company from Maru East which is likely to flow in the next few weeks.
- The company was also successful in obtaining gas at concessionary rates effective march 16 2015, subsequent to OGRA endorsement of SNGPL-Mari Novation Agreement.

PKR 000	FY13-14	(E)FYE 14-15
Net Sales	61,424,934	73,344,772
Cost of Sales	(38,822,423)	(44,923,664)
Gross Profit	22,602,511	28,421,108
Selling & Distribution	(4,441,379)	(4,498,612)
Admin Exp	(772,161)	(923,703)
Other Income	2,449,156	3,179,741
Other Operating Expense	(1,317,743)	(1,517,914)
Finance Cost	(6,625,397)	(4,669,330)
Profit Before Tax	11,894,987	19,991,290
Taxation	(3,687,027)	(6,177,019)
Profit for the Period	8,207,960	13,814,271
EPS	6.17	10.38

ENGRO: BUY

Current Price: 84

Target Price: 105

Key Data

Ticker	ENGRO
52Week High(PKR/sh) Adj	93
52Week Low(PKR/sh)Adj	51
Market Cap.(PKR Bn)	111.69
P/E Ratios 2015(E)	8

	EPS	B.Value
2011	4.25	17.35
2012	-2.74	14.73
2013	4.50	20.50
2014	6.32	26.57

	P/E (ADJ)	G.P Margin
2011	19.76	53.37
2012	-	32.20
2013	18.66	44.13
2014	13.29	36.80

	PAT
2011	4,588,286
2012	-2,934,575
2013	5,497,105
2014	8,207,960

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What to expect from next coming quarters!!

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EFERT has announced to acquire Engro Eximp for a consideration of PKR 4.4bn. Eximp is involved in trading of potash based fertilizers and other commodities like sugar, palm wheat and coal. Earnings from Eximp would eventually result in increase EPS of EFERT.

Deleveraging should play its part in improving the bottom-line by reducing finance cost to PKR 4.78bn in CY15E from PKR 6.62bn in CY14, a 28% decline. With strong operating cash-flows we expect EFERT to retire PKR 44bn of its long term debt by CY18-CY19.

For coming quarters, we expect expanding margins due to concessionary gas at USD0.7/mmbtu (vs. USD4.2/mmbtu feed gas price), which has started flowing in from March 16, 2015. However, other income may remain depressed due to accrued GIDC payments. In 1QCY15, EFERT has paid GIDC of PKR4.2bn while the remaining would be paid by Jun'15. In current scenario we expect EFERT to post an EPS of RS. 10.38/Share with the multiple of x8. Script is current trading at Rs. 84 offering upside of 19 %. We advice our clients to **“BUY”** with target price of Rs. 105.