Fertilizer | EFERT | BUY

ADAM SECURITIES LIMITED

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engro fertilizers

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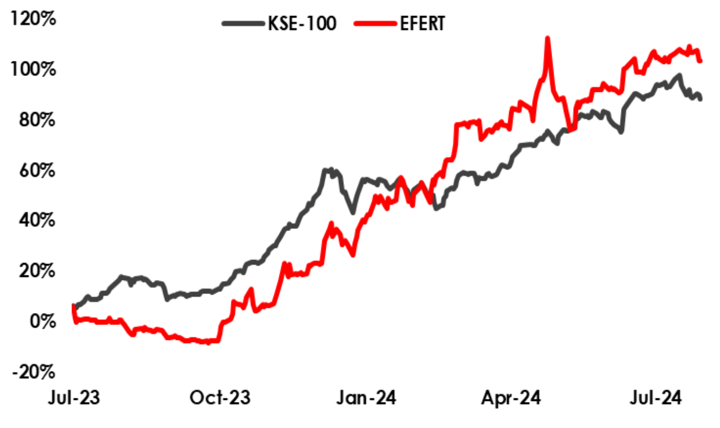
Engro Fertilizer Limited (EFERT)– "BUY"

- ***We re-initiate our detailed coverage on ENGRO Fertilizer Limited (EFERT), Pakistan's largest urea manufacturer with a "Buy" rating and June 2025 target price of Rs.195/share offering potential total return of 38%. EFERT is our preferred pick due to: (1) significant increase in market share from 30% in CY22 to 35% in CY23 vs 5 years average of 33% (2) Increase in urea dispatches with 3-Years CAGR of 5.07% v/s industry CAGR of 3.52%. (3) 5 years average net profit margin recorded at 20% vs industry average of 13% (4) substantial growth in major crops (4) increase in demand for food on back of increasing population.***
- We expect urea demand in Pakistan to grow at 3-yaer (2024-2026) CAGR of 4.4% from 6.6mn tons to 7.6mn tons vs last 3-year CAGR of 3.52%.
- We believe company market share to decline in CY24 to 30% vs 35% in CY23. it is mainly due to largest ever, 55-days-long schedule maintenance of EnVen plant
- We estimate EPS forecast of Rs.29 and Rs35 for CY24E and CY25E respectively. We expect 3-yaers (CY24-26) earning CAGR of 31%.
- Furthermore, we also expect company to continue paying dividend with payout our ratio of 102% v/s five year average payout ratio of 99%. With attractive yield of 18%.

"Buy" Rated	
KATS Code	EFERT
Bloomberg Code	EFERT.PA
Reuters Code	EFERT.KA
Market Price	163
Target Price	195
Market Cap	Rs217.64bn/USD781.64mn
Free float Market Cap	Rs97.94bn/USD351.7mn
1-Yr High/ Low	Rs176.99/Rs75.30
Average Daily Volume	2,100,334
Free Float	600.88 million (45%)
Outstanding Shares	1,335.30 million

Source: PSX, ASL Research



Source: PSX, ASL Research

Recovery and Growth: EFERT's Performance Outlook for CY24

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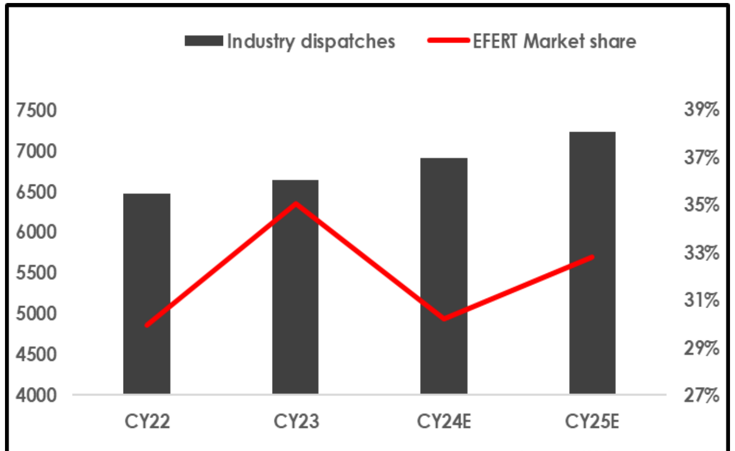
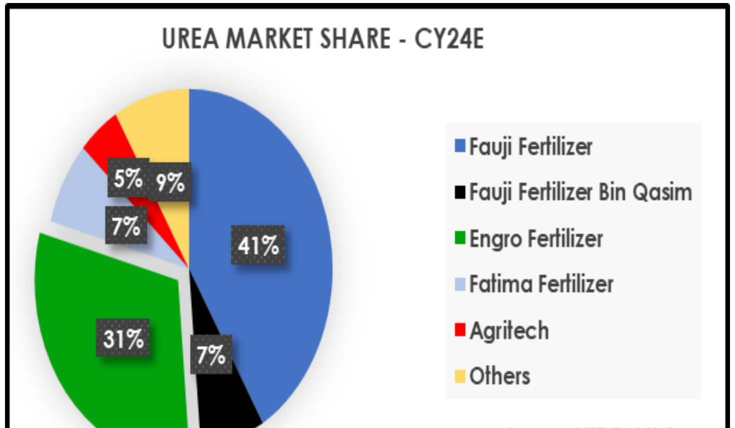
- In CY22, country suffered from unexpected heavy rains and floods. where agriculture sector suffered from heavy loss. Sindh and Balochistan province were the most severely impacted provinces
- This unprecedented situation affected Engro Fertilizer, as companies urea dispatches decline by 16% YoY in CY22. whereas, industry dispatches increased by 2%. With this, company lost market share from 36% in CY21 to 30% in CY22.
- But situation turned, and company recovered its market share in CY23. where we saw, company dispatches increased by 20% YoY, whereas, industry dispatches witnessed growth of 3%, and EFERT booked market share of 35%.
- In current year, company announced turnaround of EnVen plant from April-29, 2024 to June 18, 2024 (55-days) with investment of $50mn. In result, company market share decreased to 28% in 1HCY24. with this we expect company to end this year with market share of 31%.
- In result, we expect company urea dispatches to decline by 9% to 2.11mn tons in CY24, compared to 2.33mn tons in SPLY.
- We expect, company DAP dispatches to show growth of 17% from 0.28mn tons to 0.33mn ton in CY24E,
- With this company market share will improve from 18% In CY23 to 21% in CY24E.



Source: NFDC, ASL Research



Source: NFDC, ASL Research

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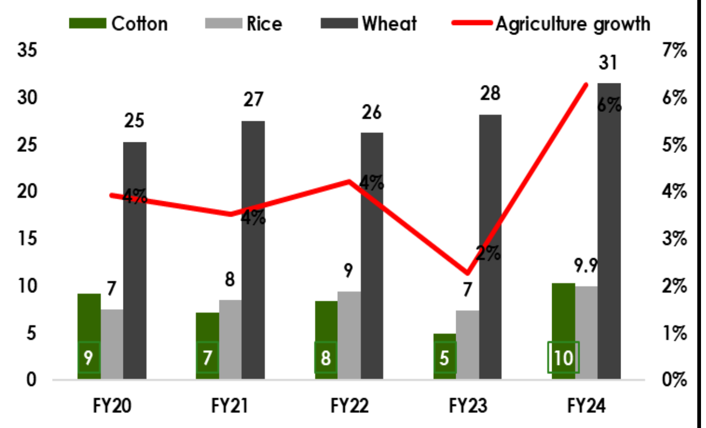
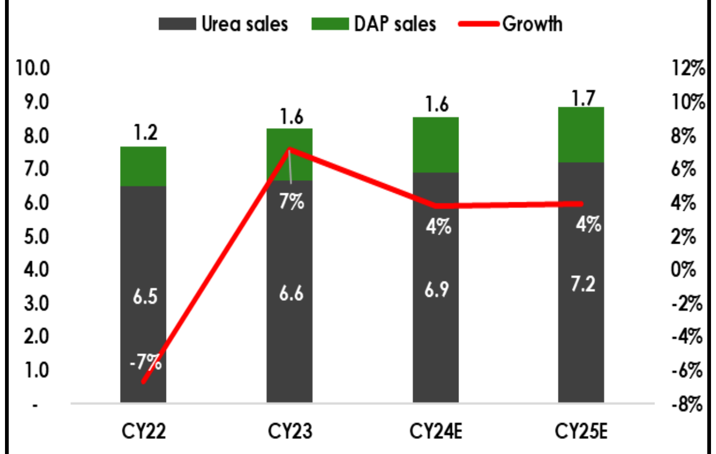
Urea offtake to pick up growth on enhanced Agricultural loan

- According to Economic Survey of Pakistan For FY23-24, agri sector posted highest growth of 6.25% after 18-years. Whereas, important crops posted growth of 16.82% led by 108.2% increase in cotton, 34.8% increase in rice and 11.6% increase in wheat.
- Rice production reached all time high of 9.9mn tons compared to 7.3mn ton last year. Wheat production also recorded at all time high of 31.4mn tons compared to 28.2mn tons last year
- For FY25, Govt of Pakistan is targeting cotton production of 10.8mn bales, compared to last year production of 10.2mn tons, growth of 6%. Whereas, Govt is targeting rice production of 8.7mn tons, compared to last year production of 9.9mn tons, showing decline of 12%. With this government is targeting 2% growth in agriculture sector for FY25, this is mainly due to base affect.
- we expect fertilizer demand (Urea & DAP) to grow at 3% from 8.2m tons in CY23 to 8.4mn tons in CY24E and 8.8mn tons in CY25E.
- Urea dispatches are expected to grow at 3.7% and 4.2% in CY24E and CY25E respectively.
- We expect government to keep wheat support price between Rs.4,000–Rs,4,200 that will help formers to recover from 2024 wheat crisis.



Source: Economic Survey,, ASL Research



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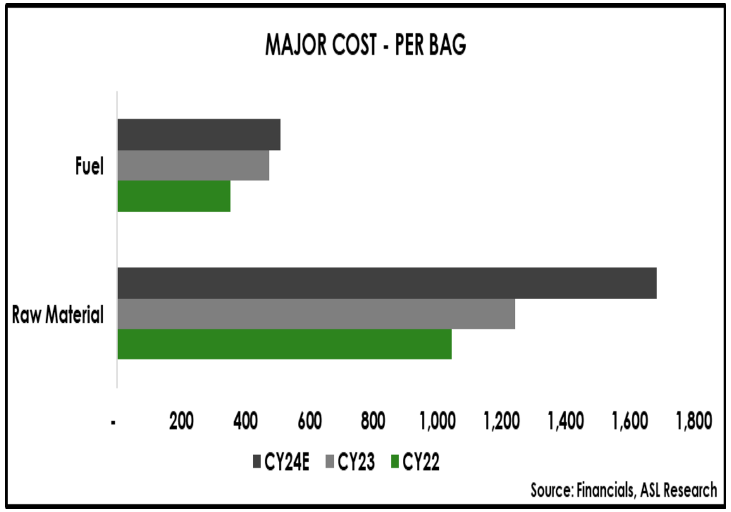
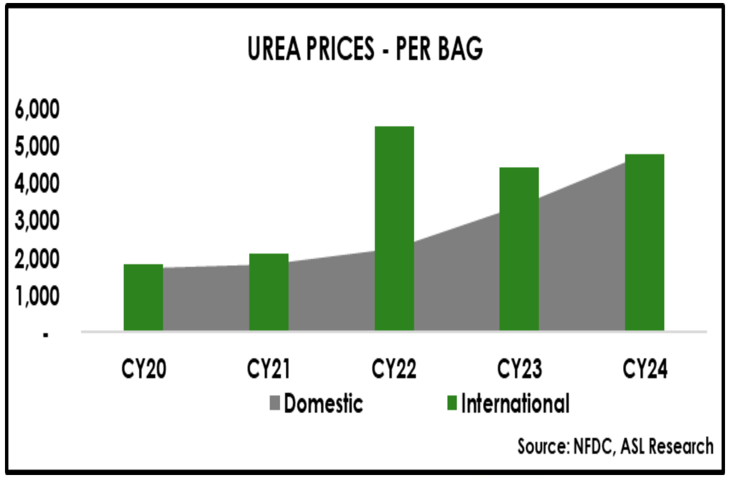
Aggressive increase in urea prices

- Pakistan fertilizer industry has witnessed series of gas prices shocks since Jan'23. where, SNGPL and SSGCL network faced price hike to Rs.510/MMBTU for feedstock and Rs.1,500/MMBTU for fuel stock. Where as, Mari based network prices remain unhanded at Rs.302/MMBTU and Rs.1,023/MMBTU respectively.
- But later in Nov'23, Mari based network witnessed price hike to Rs.580/MMBTU for feed stock and Rs.1580 for fuel stock.
- However, in Feb/24, once again SNGPL and SSGC network witnessed price hike to Rs.1,597/MMBTU for feed and fuel stock. While, Mari based network remain out of price hike, with continue supply at previous rate. Increase in gas prices apply to 60% of the sector, while 40% of sector still operating at lower prices.
- With this, formers witnessed price shocks, as EFERT increased urea prices from Rs.3,7lt/bag to 4,649/bag to pass on impact of high gas prices. Despite unchanged gas prices for FFC, company increased the urea price from Rs.3,767/bag to Rs.4,400/bag.
- We believe that, Mari will revise gas price in Jan'25, and gas price will reach at unified level.
- International urea prices recoded at USD347/MT, which makes Pakistan urea prices near to international market. As compared to previously available at lower prices due to govt subsidies in shape of lower gas prices.





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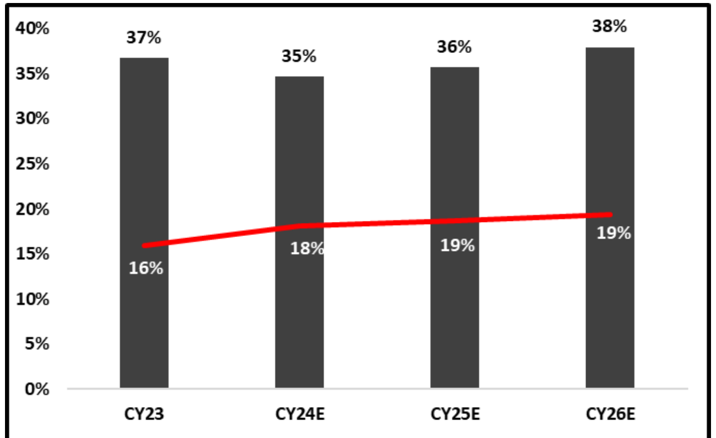
Valuation approach, Target price of Rs.195/share with a 38% return

Profitability of company

- We expect company to post gross margin of 35% in CY24E and 36% in CY25E. This is amid expectation of higher cement prices and stable gas price.
- In 1HCY24, company posted gross profit of 22%, compared to 5-year average of 37%. This wan mainly due to lower production of urea because of 55-days-long schedule maintenance of EnVen plant
- We expect, company to post net profit margin (PAT(of Rs.38.8bn (EPS of Rs.29) compared to PAT of Rs.25.7bn (EPS 19) in SPLY. With this, company to book net margin of 18% in CY24E and 19% in CY25E.

DCF Valuation

- We have used DCF based FCFF methodology to arrive at June 2025 target price of Rs. 195 with the total return of 38% (including dividend yield of 18%) at the closing price of Rs.163/share.
- We have used Risk free rate of 15.3% and risk premium of 5.6% to arrive at cost of equity of 19.5%. We have used terminal growth of 3%.
- Key risk to our assumption is climate change, unexpected climate conditions can affect the demand of fertilizer product



Source: Financials, ASL Resear

Discounted cashflow Methodology	
Sum of Discounted cashflow	94,531
Cash	9,873
Terminal Value	179,838
Enterprise value	284,241
Less: Debt	-24,431
Equity value	259,810
Target Price	**195**
Current Price	163
Upside	**19%**
Dividend Yeild CY25	18%
Total return	**38%**

Source: ASLResearch

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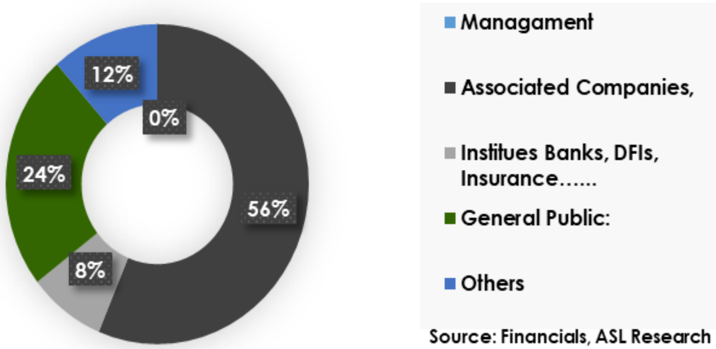
About the company

Profitability of company

- The Company was incorporated in June 2009, post demerger from parent company Engro Corporation Limited (formerly Engro Chemicals Pakistan Limited) effective from January 1, 2010. Today Engro Corporation holds
- EFERT is a renowned name in the Pakistani fertilizer industry, trading on the Pakistan Stock Exchange (PSX) under the symbol "EFERT". The Company holds a nationwide production and marketing infrastructure, producing leading fertilizer brands optimized for local cultivation needs and demand.
- EFERT has a portfolio of premium fertilizers that focuses on balanced crop nutrition and improved crop yields, including Engro Urea and DAP (Di-Ammonium Phoasphate) which comprise of some of the most trusted brands among Pakistani farmers.
- EFERT set up the first urea production facility in Pakistan, a landmark event in agricultural sector of the country, with a production capacity of 173,000 tons per year in 1968. With various debottlenecking and expansion steps, production capacity increased to 975,000 tons per year. In 2011, the Company set up the world's largest (at that time) single train urea plant of 1.3 Mn tons capacity.

Pattern of shareholding



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Financial Snapshots

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Income Statement				
Rsmn	CY23A	CY24E	CY25E	CY26E
Net Sales / Revenue	161,666	214,151	250,693	300,398
Cost Of Sales	102,244	139,810	161,150	186,392
Gross Profit	59,422	74,342	89,542	114,006
Selling And Distribution Expenses	11,706	14,502	15,277	17,992
Administrative Expenses	4,001	5,900	6,885	10,860
Other Operating Expenses	3,988	4,292	6,267	6,268
Other Income	10,121	17,021	10,883	9,913
Finance Cost	1,885	2,931	2,031	1,747
Profit Before Taxation	44,985	63,563	69,772	86,840
Profit Before Taxation	25,678	38,773	46,747	58,183
EPS (Rs)	19.23	29.04	35.01	43.57
DPS (Rs)	17.50	29.62	35.71	44.44

Source: Financials, ASL Research

Balance sheet				
Rsmn	FY23A	FY24E	FY25E	FY26E
Non-Current Assets	83,935	97,117	98,885	100,854
Current Assets	63,791	71,006	61,580	69,850
Total Assets	**147,727**	**168,122**	**160,465**	**170,704**
Equity	45,026	60,432	67,630	78,131
Non-Current Liabilities	14,623	16,279	16,418	16,810
Current Liabilities	88,078	91,411	76,416	75,762
Total Equity & Liabilities	**147,727**	**168,122**	**160,465**	**170,704**

Source: Financials, ASL Research

Key ratios	CY23	CY24E	CY25E	CY26E
Gross Margin	37%	35%	36%	38%
Net margin	16%	18%	19%	19%
P/E	5.8	5.6	4.7	3.7
Dividend Yield	16%	18%	22%	27%
BVPS	33.7	45.3	50.6	58.5
Return on Asset	17%	23%	29%	34%
Return on Equity	57%	64%	69%	74%

Source: Financials, ASL Research

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Stance Criterion	
Buy	≥15.0%
Sell	≤10.0%
Hold	Between - 10.0% to 15.0%

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