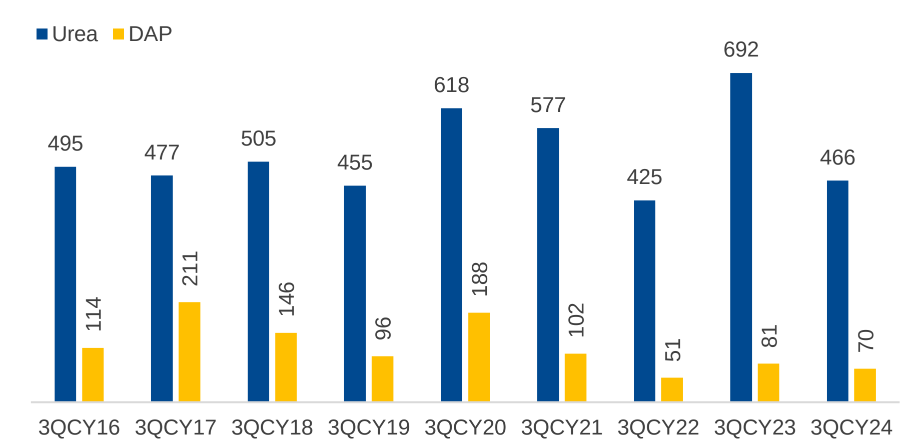
EFERT: Lower Offtakes to limit CY24 profitability

- Engro Fertilizer Limited (EFERT) held its corporate briefing yesterday to discuss 3QCY24 results and outlook. The Company reported consolidated 3QCY24 earnings of Rs8.6bn (EPS of Rs6.41), down 11% YoY mainly on account of lower offtakes.
- Cumulative earnings for 9MCY24 clocked in at Rs17.9bn (EPS: Rs13.47), up 20% YoY, despite lower Urea offtake which fell 19% YoY during the same period. Alongside the result, the Company announced a cash dividend of Rs2.5/sh, taking the cumulative payout for 9MCY24 to Rs13.5.
- To highlight, EFERT remained at a comparative disadvantage due to higher dealer transfer price (DTP) of Urea compared to peers, adversely impacting the Company amid agronomic challenges faced by farmers.
- Disparity in gas pricing continues with MARI based plants (accounting for 40% of the Urea production) getting gas at a lower rate leading to continued pricing disparity. The stock remains among our defensive picks with CY25E D/Y at 14%.

3QCY24: Demand slowdown dent earnings

Engro Fertilizer Limited (EFERT) held its corporate briefing yesterday to discuss 3QCY24 results and outlook. The Company reported consolidated 3QCY24 earnings of Rs8.6bn (EPS of Rs6.41), down 11% YoY. The drop in earnings compared to 3QCY23 was mainly on account of lower Urea offtakes which plummeted 33% YoY amid unfavourable farm economics owing to increased temperatures, monsoon, wheat price crises, and seasonal fluctuations.

EFERT: Urea and DAP 3Q offtake annual trend *('000 tons)*



Source: Company accounts, JS Research

EFERT's profitability recovered substantially on a sequential basis, arriving at a bottom-line growth of 4.2x during 3QCY24 majorly due to the resumption of Enven plant, which remained shut for 55 days during 2QCY24 owing to a maintenance activity. Resultantly, the Company reported increase of 52% QoQ in Urea volumes. Alongside the result, the Company announced a cash dividend of Rs2.5/sh, taking the cumulative payout during 9MCY24 to Rs13.5/sh. Despite the lower payout during 3QCY24, the management highlighted that the Company maintained the payout at 100% during 9MCY24.

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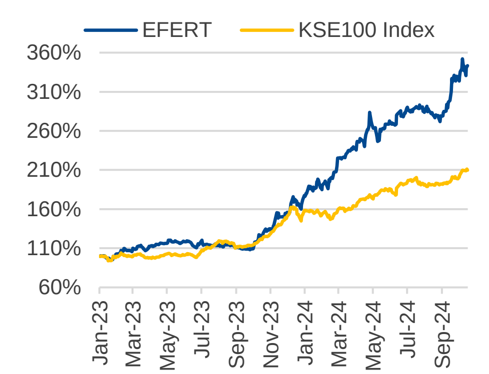
Bloomberg Code: EFERT PA
Target Price: Rs220
Market Price: Rs198.48
Market Cap: Rs265bn, US$955mn
1-yr ADTO: 2.3mn shares**,** Rs327mn, US$1.2mn
1-yr High / Low: Rs203.54 / 85.84
Estimated free float: 601mn shares (45%)

Price performance relative to KSE100



Source: PSX, JS Research

Ongoing gas tariff disparity continues to hurt EFERT

Disparity in gas pricing continues with MARI based plants (accounting for 40% of the Urea production) getting gas at a lower rate leading to continued pricing disparity remained a key concern for the Company given EFERT is already operating under higher rates on both PP12 (30% of total gas supply) and SNGP tariffs (70% of total gas supply).

To highlight, EFERT's Urea is currently priced at Rs4,650/bag, compared to FFC and FFBL's Urea priced at Rs4,400/bag and Rs4,450/bag, respectively. This leads to a premium of Rs100-150/bag compared to peers on dealer transfer prices (DTP), adversely impacting the Company's Urea sales volume.

Consequently, the Company announced a discount of Rs100/bag during Oct-2024 for dealers to off-set the disparity, aiming to regain market share. For context, EFERT's Urea market share dipped 8ppts YoY to ~30% during 3QCY24.

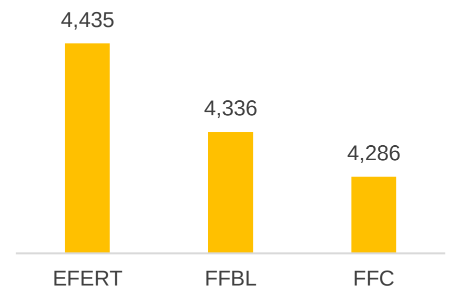
Progress on Pressure Enhancement Facility continues

Regarding progress on the Pressure Enhancement Facility project, management apprised that the project is currently under progress at MARI's HRL reservoir. This project will ensure reliable gas flow and pressure, crucial for fertilizer production. Phase one of the project which accounts for 20% of the total project cost is likely to be completed by 2QCY25. Wherein, the ordering of compressors is in progress which is part of second phase. To recall, EFERT along with fertilizer players on Mari Petroleum Co (MARI) network, entered into an agreement with MARI to develop a pipeline infrastructure and install gas compressors with an estimated CapEx of US$300mn (EFERT's Capex share:US$100mn).

Stable dividend stream to continue

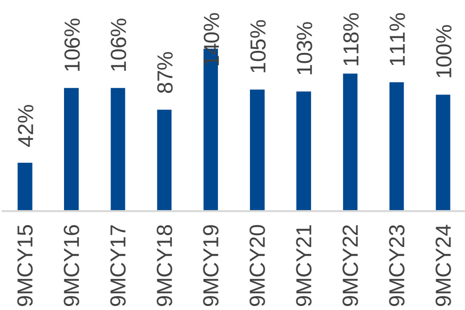
EFERT remains among our defensive picks with a stable revenue stream and CY25E D/Y at 14%. EFERT's Urea offtake is estimated to clock in around 2mn tons (-14%YoY) in CY24. Recovery in Urea volume is likely to be witnessed during CY25, while disparity in gas pricing and thus Urea prices to likely remain.

Urea DTP price (Rs/bag)



Source: NFDC, JS Research

EFERT: 9M payout trend



Source: Company Accounts, JS Research

EFERT: Key statistics

(Rs mn)	CY23	CY24E	CY25F
Sales	**223,705**	**253,170**	**292,071**
YoY Growth	42%	13%	15%
Gross Margin	32%	26%	29%
PAT	**26,191**	**28,756**	**37,762**
YoY Growth	64%	10%	31%
EPS (Rs)	19.61	21.53	28.28
DPS (Rs)	20.50	21.57	28.50
P/E (x)	4.38	9.22	7.02
DY	24%	11%	14%

Source: Company Accounts, JS Research

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