Engro Fertilizer | Result Preview | 4Q expected to be good in term of urea dispatches

- **EFERT - CY15E announcement |EPS of Rs10.45 (downgraded yearly earnings forecast) ~ while we expect DPS of 20% based on previous payout policy**

Engro Fertilizer 9MCY15 ~ Operational view

- 3Q Urea production stood at 522 KT while 9MCY15 total production stood at 1,472 KT 11% higher than previous year
- Urea sales were badly affected for 3QCY15 due to uncertain urea price mechanism
- Total urea sales for 9MCY15 stood at 1,295 KT ~ Inventories been held for 4Q | We can see jump in urea sales for 4Q

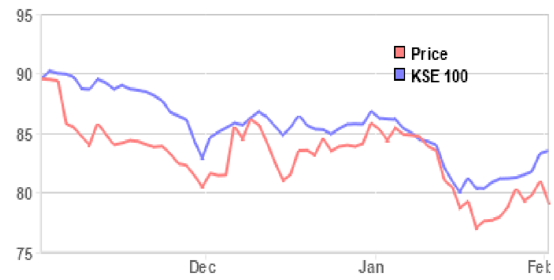
Better financial performance ~ attributed by:

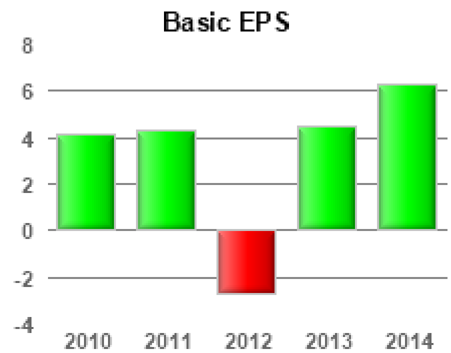
- **Concessionary gas pricing**
- **Lower financial charges**
- **Integration of DAP business**

How CY16 looks for EFERT ?

- **Certain urea price mechanism will create stability for urea sales**
- **Entity continue to negotiate with the government for availability of gas for both plants beyond 2015, as per their 9MCY15 recordings**
- **Entity continues to explore opportunities both within country and abroad to expand its business**
- **Gas issues needs stability in order to pump up urea**

REK-66





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What EFERT makes competitive ?

- Concessionary gas pricing contract
- Stay order obtained against GIDC (New plant) ~ as GIDC is not applicable over concessionary gas contract
- Capacity utilisation ~ still room to increase its level wherein industry could bridge the gap through imported urea

Analyst
Ali Sufyan (ACCA Affiliate)
Tel: 35290460
UAN: 111-111-721
www.scstrade.com

production; while any halt in gas supply will badly affect the urea production

Valuations ~ we expect CY15 EPS of Rs10.45 with a Dividend of 20% (interim dividend already passed on Rs3/sh (total dividend yield 6% which is low as against peer FFC) | stock yields PE of 7.5x | EPS forecast downgraded from our previous projections

Continuation of gas supply for upcoming period will help EFERT to obtain its optimum operating levels while any halt would be a risk to our future valuations.

- **EFERT is still operating at 79% and got room to increased its capacity utilisation**
- **Still the market rely on imported urea ~ Government pays heavy subsidy on imports**
- **We believe that government would make ground better for urea manufacturers in order to keep consistent supplies**
- **Any increase in feedstock prices throughout 2016 would adversely affect the margins and hence manufacturers need to pass on the final consumers. This would be against the international urea price mechanism. World Bank recently projected a decrease of 4% during 2016 given their thrust of weak demand, rising supply capacity & destocking.**

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