

## Engro Corporation Ltd.

### Concessionary gas & absence of one-off losses to double CY15 earnings

Engro Corporation (Engro) remains our preferred choice in the Chemical sector due to exposure to key consumption sectors of Pakistan. Moreover, the conglomerate is trading at significant discount to the market value of its key businesses while significant progress has been made over the billing of concessionary gas rate for its flagship business, which will be a key catalyst going forward. Company officials further highlighted that the Guddu gas is still flowing in, while the company has challenged the GIDC on concessionary gas rate in court.

In 9MCY14, Engro reported profit from continuing operations of PKR4.4bn (EPS: PKR9.58), as opposed to a PKR5.7bn (EPS: PKR11.09) in CPLY, down 14% YoY. CY15 earnings are expected to double due to projected start of concessionary gas rate for Efert and much improved performance from Efoods & Eximp businesses due to absence of one-off losses.

We have revised our earnings/TP of Engro stemming mainly due to continuous gas supply of Guddu power plant while also tweaking our estimates for other businesses. After incorporating the same, our new TP of PKR208.9/share represents a decent upside potential of 21% from last closing price. BUY maintained!

Engro Corp (PKR mn)	9MCY13	9MCY14	YoY	2QCY14	3QCY14	QoQ
Net sales	107,764	122,397	14%	39,186	44,856	14%
COGS	78,961	96,037	22%	31,792	35,266	11%
Gross Profit	28,803	26,360	-8%	7,394	9,591	30%
Operating Profit	19,100	15,730	-18%	3,847	5,889	53%
Financial & other charges	10,578	10,761	2%	2,747	4,296	56%
PBT	8,515	8,092	-5%	2,256	2,741	21%
Tax	2,293	2,929	28%	1,328	741	-44%
PAT	6,222	5,163	-17%	928	2,000	116%
Profit attributable to equity holders	5,731	4,441	-22%	682	1,758	158%
EPS- continuing operations	11.09	9.58	-14%	1.32	4.34	229%
Tax rate	26.9%	36.2%		58.9%	27.0%	

Source: Company data, TSL Research

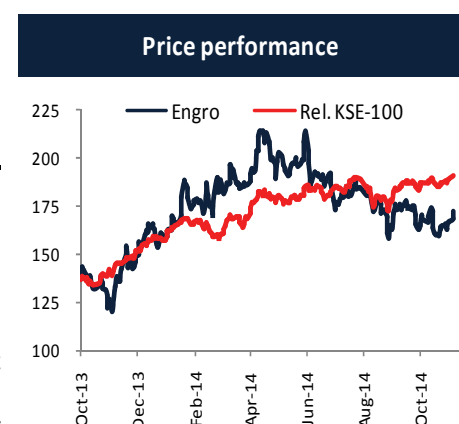
#### Key briefing highlights & result reviews

- After a series of meeting with officials of SNGPL and Mari, company officials stated that substantial progress has been made on billing of concessionary gas rate, and its implementation may come soon (in our model we have taken concessionary gas rate from 1QCY15). The management further mentioned that the materialization of KPD still remains with the government and uncertain at this point. However, interim gas supply from Guddu is currently flowing in, which may offset the delay in materialization of KPD gas pipeline if this transitory gas supply continues. Moreover, management is also expecting to issue further shares of Engro to IFC as its exercises the remaining conversion option, which is expiring in Dec' 2014.
- Increase in paddy prices (raw material) and decline in the international selling price of rice compressed the margins of rice business for Eximp. While, strict price control implemented by UAE govt. and dip in Iran's import squeezed the volumes. Company's management highlighted that, they are reassessing the rice business model in order to reduce the exposure to

ENGRO PA	BUY
Stock price	172.5
<b>Target price</b>	<b>208.9</b>
Current upside/(downside)	21%
Outstanding shares (m)	517.0
Market Cap (PKR bn)	89.2
Free float	44%
3M Avg. daily turnover (PKRm)	263
3M Avg. daily volume (m)	1.5
3M High	182.2
3M Low	158.6

Key Financials	in PKR Bn			
Year end	CY13A	CY14F	CY15F	CY16F
Net sales	155.4	166.4	176.9	211.1
EBIT	25.75	22.82	31.58	35.98
Net Profit	8.18	6.36	13.11	20.25

Key Metrics				
EPS	15.83	12.31	25.35	39.16
DPS	-	4.0	6.0	10.0
BVPS	108.7	113.8	137.3	168.8
P/Ex	10.9	14.0	6.8	4.4
P/BVx	1.6	1.5	1.3	1.0
Dividend Yield	0.0%	2.3%	3.5%	5.8%
Earnings growth	514%	-22%	106%	54%
ROA	5%	3%	8%	11%
ROE	20%	12%	25%	29%
Net Debt/Equity	127%	113%	77%	44%



**Hassan Bin Ghafoor**  
hassan.ghafoor@taurus.com.pk  
Direct: +92-21-35216403

Continued on page 2

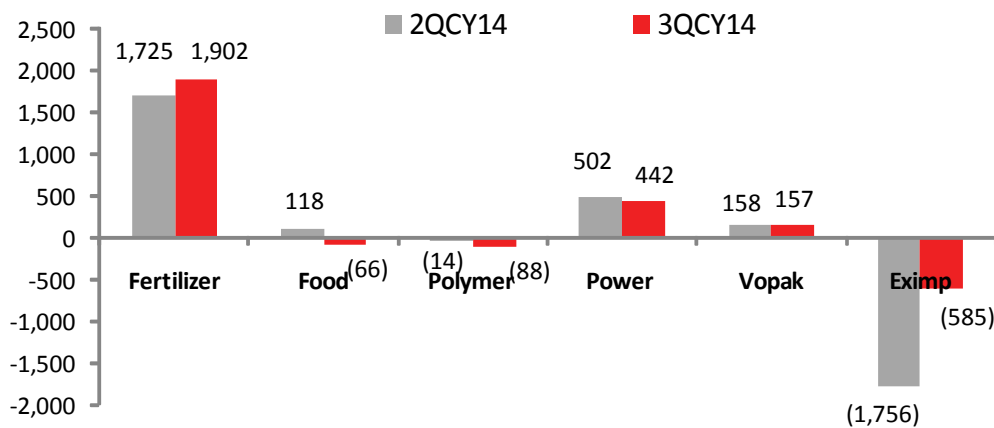
Chemicals

TSL Research

rice price volatility. While, focus to cut down fixed cost is also under consideration.

- Although, sales revenue of Foods business improved by 10% QoQ, gross profit went down by 18% QoQ due to higher raw milk prices and continued discount in the price of Tarang. Gross margins declined to 15% in 3QCY14 as compared to 20% in the preceding quarter. Moreover, one-off impairment charge of PKR497mn related to exit from Al-Safa Canada inflated the other expenses and translated into pre-tax loss as compared to pre tax earnings reported in 2Q.
- EPCL again reported a loss in 3Q which magnified to PKR157mn vs. loss of PKR25mn reported in 2Q. Ethylene prices remained firm due to lower supply from Middle East while excess supply of carbide based material from China restricted the growth in PVC prices while 5% duty imposed on import of Ethylene and EDC in FY15 budget resulted into lower margins amid slow-down in sales volumes of PVC. The officials further stated that, second phase of PVC debottlenecking project completed in 3Q, taking total PVC annual capacity to 171KT.
- Engro Powergen saw an 8% QoQ decline in net profit due to 14 days planned outages, while piling up of receivables from PEPCO (PKR3.1bn as of Sep'2014 vs. PKR1.4bn as at Dec'2013) may result in subdued cash payout, going forward. Moreover, Engro Vopak results remained largely flat (2% QoQ dip in net earnings).
- ELENGY update: According to company's management, LNG terminal is building on a fast track basis and is expected to come online by Mar'2015. As per media reports, the negotiations with Qatar gas are starting this week over pricing which is expected to conclude by year end.

### Business' Performance (PKR mn)



Continued on page 3

### About the company

Engro Corporation Limited has 511mn shares outstanding and is listed on all the three Stock Exchanges of Pakistan. Engro Corporation Limited is the parent company of Engro Fertilizer which is the largest urea manufacturer in the country on the basis of capacity. Engro Fertilizer Limited now has a total name plate capacity of 2.3mn tons per annum of urea and blended fertilizer (NPK) plant.

The company imports and sells phosphatic fertilizers for balanced fertility and improved farm yields. Engro Corporation also has major investments in dairy, power, business solutions, port handling and polymer industries. Currently Engro Corp's three subsidiaries (Engro Fertilizer, Engro Polymer and Chemical Ltd and Engro Foods Ltd) are listed.