

ENGRO Corporation
Chemicals
Result Review and key takeaways of Analyst Briefing
Buy

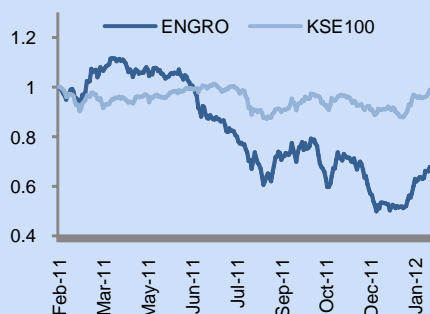
Target Price	205.7
Last Closing	134.0
Upside	53.5%
KSE Code	ENGRO
Bloomberg Code	ENGRO PA

Shares

Market Cap (US\$ m)	585.1
Outstanding Shares (m)	393.0
Free Float	35%
12M Avg. Daily Turnover (m)	150.0
12M High/Low (PKR)	205.78/91.97
Major Shareholders	Dawood Group

Financials

	CY10A	CY11A	CY12F
Total Equity (PKRbn)	34.12	37.7	45.9
Total Assets (PKRbn)	164.8	205.0	201.4
Net Profit (PKRbn)	6.44	8.10	9.20
ROE (%)	18.9%	21.5%	20.0%
EPS (PKR)	16.39	20.60	23.40
P/E (x)	8.18	6.50	5.73
P/B (x)	1.54	1.40	1.15
DPS (PKR)	6.00	6.00	8.00
Div Yield (%)	4.5%	4.5%	6.0%

Stock Performance


Source: Bloomberg

Analyst

Umar Hafiz

umar.hafiz@arifhabiltld.com

021-32462589

www.arifhabiltld.com
Profitability improves by 19% YoY in CY11

Engro Corporation Limited (ENGRO) recently held an analyst briefing to discuss its CY11 financial results. The company recorded consolidated profit after tax (PAT) of PKR 8,060mn (EPS: PKR 20.50) during the year under review, as compared to PKR 6,790mn (EPS: PKR 17.27) earned in the same period last year. The prime bread earner for the company remained Engro Fertilizer Limited (EFL), whose contribution stood at 57% of the total profitability. Powergen and Vopak's contribution to the company's bottom line also remained healthy during the period and stood at 21% and 43% respectively, while Engro Foods (EFOODS) and Eximp's contribution stood at 11% each. However, Engro Polymer (EPCL) and Avanceon continued to remain earnings draggers for the company. ENGRO announced a final cash dividend of PKR 2.0/share alongwith a Bonus of 30%. A gross debt repayment of PKR 11bn in CY11 helped in bringing the Corporation's debt to equity down to 71% (CY10: 75%).

Profitability Breakdown (PKRmn)

	CY11	CY10	YoY
Fertilizer	4,588	3,730	23%
Eximp	858	1,734	-51%
Polymer	(706)	(814)	-13%
Food	891	176	406%
Power	1,718	1,100	56%
Vopak	3,484	1,109	214%
Avanceon	(169)	(196)	-14%
Consolidated earnings	8,060	6,790	19%
EPS (PKR)	20.50	17.27	19%

Source: Company accounts & AHL research

EFL: Gas supply suspension caps earnings growth at 23%

For CY11 Engro Fertilizer Limited (EFL) recorded PAT of PKR 4,588mn (EPS: PKR 4.28), depicting a rise of 23% YoY from PKR 3,730mn in CY10 (EPS: PKR 3.48). The subsidiary's higher profitability stems from its CoD (in Jun-11) and record urea retail prices which averaged PKR 1,453/bag as compared to PKR 853/bag in CY10. On a QoQ basis however, Fertilizer's PAT contracted by 19% to PKR 1,078mn, mainly on account of closure of its Enven plant due to gas curtailment. As per the management, EFL is likely to retire debt of around PKR 10bn in CY12. Gas supply situation too is not expected to improve in CY12. The management however believes that it will not need to raise urea prices as long as it receives gas for 5-6 months during the year.

Engro Eximp's profits down 51%

Engro Eximp registered CY11 PAT of PKR 858mn as compared to PKR 1,734mn last year. DAP sales for the period witnessed a marginal 2% YoY increase to 335 Kt in CY11. The subsidiary also commenced rice processing and exports during the year. Lower profitability can mainly be attributed to windfall trading gains (non-recurring) in CY10.

Engro Polymer continues to be a drag on Corp's profitability

Engro Polymer & Chemicals (EPCL) suffered a net loss of PKR 707mn (LPS: PKR 1.10) for CY11 compared to a loss of PKR 770mn (LPS: PKR 1.23) in CY10.

Unstable VCM operation kept the company from benefiting from its integrated operations as the company had to rely on expensive VCM imports during the year. During 4QCY11, EPCL was able to achieve stable VCM production as the company not only met its VCM requirement but exported a small consignment as well. We are of the view that stable VCM operation would improve company's profitability going forward as it would be able to yield almost 5x higher margins by producing in-house VCM.

Engro Foods contributes 10% to Corp's earnings

Engro's Foods (EFOODS) posted a massive 406% YoY increase in PAT to PKR 891mn in CY11 compared PKR 176mn in the corresponding period last year. This was due to strong YoY volumetric growth in all major segments including Dairy (22%), Ice Cream (43%) and Juices (236%). During the period EFOODS also acquired Al-Safa, a Canadian halal meat company, at a cost of USD 6.3mn.

Engro Powergen adds PKR 1,718mn to ENGRO's bottom line

Engro Powergen's net earnings soared to PKR 1,718mn, compared to profit of PKR 1,100mn reported last year. The Energy subsidiary was able to achieve a load factor of 90% in CY11 as compared 83% last year, which translates to a net power dispatch of 1,657 GWh versus 1,201 GWh in CY10. Another factor working in the Company's favor was Qadirpur plant operating at 100.1% of its installed capacity of 217MW (when adjusted for outage days).

Vopak's profitability soars by 214% in CY11

Engro Vopak posted PAT of PKR 3,484mn in CY11, a 214% jump on CY10's PAT of PKR 1,109mn. This has mainly been achieved through a tax reversal of PKR 2bn booked during the year. During CY11, Vopak was shortlisted for the integrated LNG import terminal being set up at Port Qasim and also established a 100% owned subsidiary Elengy Terminal Pakistan Limited to improve its positioning in the sector.

ENGRO to divest from Avanceon

The management has informed analysts that ENGRO will be divesting from this automation business in CY12, for which a Memorandum of Understanding has already been signed. During the year, ENGRO has provided for and recognized impairment of investment, subordinated loans and accrued interest to the tune of PKR 659mn. In CY11, the subsidiary posted a net loss of PKR 169mn as compared to a loss of PKR 196mn last year.

Recommendation

Our Dec-12 SOTP based target price for ENGRO stands at PKR 205.7/share, which offers an upside potential of 53.4% from the last closing price of PKR 134.0/share. Thus we recommend Buy stance on the scrip. However market sentiments about the company may remain affected by the continuation of gas curtailment issue.