

Capital Market Daily

Company Update - ENGRO

Highlights of Analyst briefing

ENGRO in its recently held analyst briefing for CY11 highlighted that 43% growth in the revenue generated by its business entities was primarily on the back of higher prices and increase in volumes mainly led by fertilizer and foods business. As a result, bottomline growth clocked in higher at 19% YoY in CY11, supported by higher margins and growth in business segments, while increased financial charges due to COD of EnVen arrested growth in profitability during the year.

ENGRO fertilizer has been the key indicator for the stock price movement in ENGRO which was reflecting change in investor sentiments due to frequent curtailment in gas supply to its over USD 1bn fertilizer plant EnVen on SNGPL network, where the plant operated on a 33% capacity utilization. However, we witnessed that massive price hikes announced by the company helped in sustaining the EBITDA during the year along with increased production based on limited gas supply to EnVen. ENGRO sold 1.28mn MT urea where its production from EnVen was 448K MT which remained shutdown for 220 days. As a result the company improved its market share to 21% during CY11. However, increased gas supply has hurt the local production and resulted in imports and the management believes that similar imports of ~1.2mn MT will be required in CY12 as well.

EFOODS posted a tremendous growth in bottomline which was again driven by better margins as the company improved its product base and positioning in the market. We witnessed 22% growth in UHT volumes mainly driven by Tarang and Omung while Ice cream market share jumped up by 24% from 17% in CY10. The company also recorded a one-off gain of PKR 55mn on account of approval of sales of 70% equity shares of Engro foods supply chain to EXIMP at PKR 10.64/share.

EPCL increased its revenue by 17% with higher sales and prices along with the first ever export of 3k MT VCM by the company in Dec11. However, due to unstable operation in 9mo CY11 along with volatile margins and currency devaluation the business reported a loss, while minimizing losses as compared to previous year. The VCM plant is currently operating at a utilization of 450tpd where the company is scheduled to take an ATA in Mar12. The company expects to ramp up production to 550tpd post ATA. The Power business remained profitable as it achieved load factor of 90% against 83% last year with power dispatch of 1,657GWh in CY11.

Another development during the year was successful change in Vopak's tax regime to presumptive tax as compared to normal tax; resultantly, the business earned one-time gain of PKR 1bn due to change in tax regime. Moreover, the management has divested 100% ownership in the Avanceon business. According to the guidance, we see no further downside risk from the business as the stand alone accounts have written off impairment on PKR 659mn investment, subordinated loans and accrued interest while in the consolidated accounts good will of PKR 554mn has been taken off.

Furthermore, financial cost which went up by 2.76x YoY during CY11 due to completion of COD of EnVen plant where the company expensed out its interest cost for the new expansion plant. Moreover, the company has taken off its debt by paying PKR 11.2bn in CY11 which includes PKR 6bn through its fertilizer business, taking down total Debt:Equity down to 71% from 75% in CY10.

Outlook

ENGRO's management has now conveyed that the company has deferred its plan on the IPO of its power business due to its lucrative business model, while they might look into announcing the same for its fertilizer business. Moreover, the company highlighted that the fertilizer industry will start receiving gas supply from mid-Mar12 and no major development has taken place for the case hearing at SHC. In addition, all other alternate gas solutions are also on paper and no concrete resolution is in sight. Additionally, the company highlighted that current price incorporates 5-5.5mo of production and with 6.5mo gas curtailment the company can achieve its targeted EBITDA for CY12. However, the management also mentioned that signs of sustainable gas supply may result in a decline in urea prices.

For the foods business, the company is expecting additional CAPEX of ~PKR 3-5bn in order to increase its business, while maintaining the D:E at 50%. Moreover, the company also keeps a constant lookout for possible acquisitions based on compatibility with the local market.

We believe, ENGRO is better placed in terms of any decline in urea prices as the same would increase the production of the company due to resolution on the gas front. In addition, growth in other business will also continue to augment the bottomline of ENGRO corp.

Equities	Feb 17'12	% Δ
KSE100	12,495.68 ▲	0.74
Market Cap (PKR bn)	3,257.09 ▲	0.73
Volume (shares mn)	233.27 ▲	13.48
Value (PKR mn)	7,045.09 ▲	49.34

Fixed Income	Feb 17'12	Bid	Bp Δ
T-bills			
3 months	11.73% ▼		1
6 months	11.84% ▲		1
12 months	11.92% ▲		2

PIBs	Bid	Bp Δ
2 yr	12.26% ▲	4
5 yr	12.76% ▲	1
9 yr	12.91% ▲	3

KIBOR	Feb 17'12	Bp Δ
1 month	12.01% ▼	2
3 months	11.88% ▼	1
6 months	11.93%	-

Exchange Rate	Bid	Offer
PKR/USD	90.80 ▲	90.82

Crude Oil	USD/barrel	% Δ
OPEC basket	118.13 ▲	0.15
US light sweet (WTI)	103.24 ▲	0.91

Major Events

Feb 22'12 T-bill Auction

Board Meetings

Feb 21'12	MCB Bank Ltd.
Feb 21'12	United Bank Ltd.
Feb 21'12	Arif Habib Corporation Limited
Feb 21'12	Bank AL-Habib
Feb 22'12	Indus Motor
Feb 22'12	AI-Abbas Cement
Feb 22'12	P.T.C.L.A
Feb 23'12	Oil and Gas Development
Feb 24'12	Nishat Mills Limited
Feb 24'12	Habib Bank Ltd

AGMs / EOGM

Feb 28'12	Fauji Fertilizer Co.
Mar 03'12	Lotte Pakistan PTA

Sarfaraz Abid

sarfaraz.abid@gsplk.com
+92.21.3245.7500