Company Update

Engro Corporation Limited

CY11 Analyst Briefing Highlights

February 20, 2012

Market Data	
KATS Code :	ENGRO
Current Price (PKR) :	133.99
52 Week Hi (PKR) :	205.78
52 Week Low (PKR) :	91.97
Avg Turnover :	2.42mn
Free Float :	45%
Share in Issues (PKR) :	393.28mn
Market Capitalization (PKR) :	52.70bn

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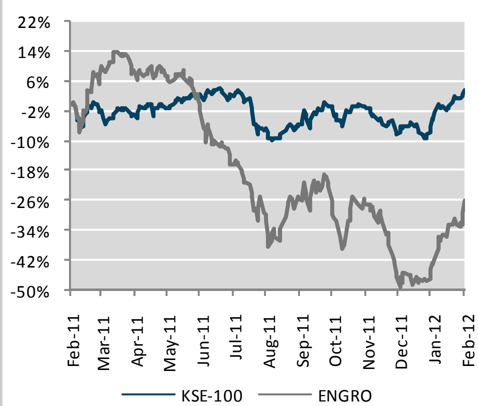
Relative Performance



Source: HMFS Research

Engro Corporation (Engro) recently released its CY11 results in which the company reported a PAT of PKR8,060mn (EPS: PKR20.50) versus PKR6,790mn (EPS: PKR17.27) in CY10. The company declared a final cash dividend of PKR2.00/share, taking the total payout to PKR6.00/share for the year coupled with a stock dividend of 30%. An Analyst Briefing was held on February 17, 2012 to discuss these results from which the key takeaways are as follows:

Operational Highlights

- **Fertilizer** segment revenues rose a whopping 65%YoY to PKR31.3bn from PKR19bn on the back of higher urea prices and improved sales volumes. The volumetric surge stemmed from the 32%YoY production bump as a result of its EnVen facility coming online. Consequently, Engro's urea market share jumped to 21% from 15% a year ago. The Zarkhez operations also benefitted from higher market prices as their revenue contribution improved to PKR4.9bn from PKR3.5bn a year ago. Cumulatively, the fertilizer operations PAT improved to PKR4.58bn from PKR3.73bn a year ago.
- The **Food** operations reported 42%YoY revenue growth to PKR29.9bn with stellar volumetric growth in both the Dairy and Ice cream segments. The volumetric surge allowed EFOODS to enhance its market share in the Dairy market to 44% from 39% and to 24% from 17% a year ago in the Ice Cream market, respectively. But the highlight of the segment was undoubtedly the 4x profitability improvement to PKR0.89bn from PKR0.18bn a year ago, courtesy of the Dairy business doubling its profits to PKR1.4bn. However, marginally higher losses in the Ice Cream segment dragged overall profitability down.
- The **Chemical** business saw its revenues improve 11%YoY to PKR16.4bn but the segment remained in the loss category due to unstable VCM production. Although VCM production substantially improved in 4QCY11, lower margins and strong exchange rate pressure dented its profits. Management acknowledges that the outlook of the chemical business is highly dependant upon stability of the VCM operation.
- **PowerGen** continued to exhibit strong growth as revenues improved to PKR8bn from PKR5.7bn. The plant enhanced its load factor to 90% from 83% in the previous year leading to a 56%YoY rise in PAT to PKR1.7bn.
- **ExImp**, witnessed revenue growth of 47%YoY to PKR26.1bn due to higher phosphate prices and improved rice export volumes. However, the segment's profits declined to PKR0.86bn from PKR1.7bn in CY10 due to comparatively lower trading gains in the phosphate business along with losses incurred due to the delayed commissioning of the rice processing plant.
- **VoPak** operations posted marginally lower revenues from the previous year due to lower phosacid volumes but saw a sharp rise in profits courtesy of a tax reversal of PKR2bn.
- The **Avanceon** automation operations continued to suffer from lower order generation due to recessionary pressures resulting in revenues declining to PKR1.27bn from PKR1.83bn a year ago. Consequently, the segment's losses remained relatively constant from the previous year. Management indicated that the Board has decided to divest from this business with an MoU signed to handover the Pakistan and UAE businesses by early 2012 to the Wain family.

Management Discussion

Engro management anticipates gas supply to resume at its EnVen facility by the second week of March. With the current urea price at PKR1,790/bag, management is confident that it can successfully manage its debt obligations. It was pointed out that despite the gas constraints in the previous year , Engro's debt to equity ratio improved from 75% to 71%. While the company continues to work with the relevant stakeholders to find a solution to its perpetual gas problem, at the moment there is no concrete solution available. Hence, it is safe to assume that there will be no major improvement in the EnVen plant capacity utilization in the upcoming year.

Engro Corporation		**Revenue**			**Profit After Tax**	
PKR mn	**CY11**	**CY10**	**YoY**	**CY11**	**CY10**	**YoY**
Engro Fertilizers Ltd.	31,353	19,018	65%	4,588	3,730	23%
Engro Foods Ltd.	29,859	21,050	42%	891	176	406%
Engro Polymer & Chemicals Ltd.	16,376	14,737	11%	(706)	(770)	8%
Engro Powergen Ltd.	8,338	5,727	46%	1,718	1100	56%
Engro Eximp Pvt. Ltd.	26,103	17,720	47%	858	1734	-51%
Engro Vopak Terminal Ltd.	2,286	2,303	-1%	3,484	1,109	214%
AVANCEON Ltd.	1,268	1,829	-31%	(169)	(196)	14%
Engro Corporation (consolidated)	**114,612**	**79,976**	43%	**8,060**	**6,790**	19%

Source: Analyst Briefing Presentation & HMFS Research

Analyst Certificate

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