



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



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### Today's Daily

#### ■ ENGRO: 2QCY18 earnings to remain strong

ENGRO is scheduled to announce its 2QCY18 earnings tomorrow (Aug 16'18) where we expect the company's consolidated earnings to clock in at PkR3.88bn (EPS: PkR7.42), up 4.1xYoY. The growth comes amid: 1) impressive earnings performance by its subsidiaries (EPCL/EFERT/EPQL posted bottom-line growth of 6.7x/31%/5%YoY), and 2) low base effect of 2QCY17 results owing to abnormal effective tax rate of 64% (imposition of super tax on inflated CY16 earnings). Along with the result, we also expect an interim cash dividend of PkR10/sh. (+100%YoY) taking 1HCY18 total payout to PkR15/sh (+25%YoY). On a cumulative basis, we expect ENGRO 1HCY18 consolidated earnings to rest at PkR8.01bn (EPS: PkR15.43), translating into a earnings growth of 2.1xYoY. With questions still abound with regards to cash utilization prospects for ENGRO (current PkR65bn or PkR124/sh), recent run-up in ENGRO's prices (up 26%CYTD) has resulted in a downgrade of our stance to Neutral with our SOTP based Jun'19 TP standing at 348.8/sh.

#### KSE100 - Index

Current 42,637.59  
Previous 42,842.18  
Chg. -0.48%

#### Mkt Cap. (PkRbn/US\$bn)

Current 8,729 / 70.43  
Previous 8,765 / 70.73  
Chg. -0.41%

#### Daily Turnover (mn)

Current 163.22  
Previous 250.07  
Chg. -34.7%

#### Value Traded (PkRmn/US\$m)

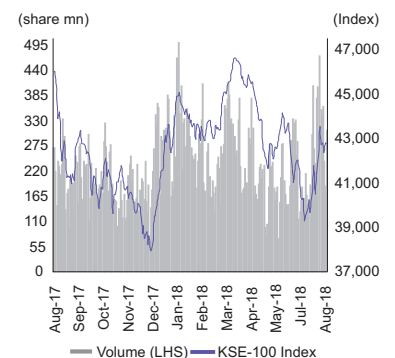
Current 8,051 / 64.96  
Previous 12,324 / 99.44  
Chg. -34.7%

AKD Daily

Wednesday, Aug 15, 2018

### News and Views

- The elections for speaker and deputy speaker of National Assembly will be held today (Wednesday). Former Speaker Khyber Pakhtunkhwa Assembly Asad Qaiser is the nominee for National Assembly speaker from PTI, while PPP's Khursheed Shah is the opposition's candidate.
- A visiting delegation of the Asia Pacific Group (APG) on Thursday will complete its review of Pakistan's compliance with international obligations over fighting money laundering and terror financing in order to submit its report to the Paris-based Financial Action Task Force (FATF). By the end of September next year, Pakistan has to comply with a 10-point action plan it committed with the FATF in June this year.
- Country's trade deficit has widened by US\$3.192bn for the month of Jul '18, up by 0.31%YoY, according to PBS. Pakistan exported US\$1.646bn of goods and imported US\$4.838bn of goods during the month. Exports were up 1.17%YoY and down 12.8%MoM, while imports rose by 0.6%MoM and declined 15.0%YoY.



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## ENGRO: 2QCY18 earnings to remain strong

ENGRO is scheduled to announce its 2QCY18 earnings tomorrow (Aug 16'18) where we expect the company's consolidated earnings to clock in at PkR3.88bn (EPS: PkR7.42), up 4.1xYoY. The growth comes amid: 1) impressive earnings performance by its subsidiaries (EPCL/EFERT/EPQL posted bottom-line growth of 6.7x/31%/5%YoY), and 2) low base effect of 2QCY17 results owing to abnormal effective tax rate of 64% (imposition of super tax on inflated CY16 earnings). Along with the result, we also expect an interim cash dividend of PkR10/sh. (+100%YoY) taking 1HCY18 total payout to PkR15/sh (+25%YoY). On a cumulative basis, we expect ENGRO 1HCY18 consolidated earnings to rest at PkR8.01bn (EPS: PkR15.43), translating into a earnings growth of 2.1xYoY. With questions still abound with regards to cash utilization prospects for ENGRO (current PkR65bn or PkR124/sh), recent run-up in ENGRO's prices (up 26%CYTD) has resulted in a downgrade of our stance to Neutral with our SOTP based Jun'19 TP standing at 348.8/sh.

**Consolidated earnings to remain strong:** Stirring performance by its subsidiaries along with normalization of effective tax rate are the key drivers behind our forecasted 2.1xYoY bottom-line growth in 1HCY18 (EPS: 15.43). Strong earnings performance by its Chemical (EPCL after tax profit surged by 2.6xYoY to reach PkR2.78bn) and Fertilizer (EFERT posted an earnings growth of 74%YoY to reach PkR7.15bn) businesses would be the key highlights of 1HCY18F results. Besides this, we also foresee decent contribution from its Power (EPQL 1HCY18 earnings clocked in at PkR1.59bn, up 3%YoY) and Terminal operations (Elengy and Vopak to depict combined growth of 3%YoY) in ENGRO's consolidated bottom-line during 1HCY18.

### Businesses Performance: NPAT (PkRmn)

| Subsidiaries   | 2QCY18E | 1QCY18 | QoQ  | 2QCY17 | YoY  | 1HCY18E | 1HCY17 | YoY  |
|----------------|---------|--------|------|--------|------|---------|--------|------|
| EFERT          | 3,260   | 3,890  | -16% | 2,479  | 31%  | 7,149   | 4,116  | 74%  |
| EPCL           | 1,336   | 1,448  | -8%  | 200    | 6.67 | 2,784   | 1,046  | 2.66 |
| EPQL           | 921     | 669    | 38%  | 877    | 5%   | 1,590   | 1,546  | 3%   |
| Vopak          | 530     | 520    | 2%   | 523    | 1%   | 1,079   | 1,104  | -2%  |
| Elengy         | 610     | 589    | 3%   | 555    | 10%  | 1,199   | 1,112  | 8%   |
| Consolidated*  | 6,390   | 6,837  | -7%  | 2,421  | 2.64 | 13,227  | 6,717  | 97%  |
| Consolidated** | 3,885   | 4,195  | -7%  | 938    | 4.14 | 8,080   | 3,776  | 2.14 |
| EPS**          | 7.42    | 8.01   | -7%  | 1.79   | 4.14 | 15.43   | 7.21   | 2.14 |
| DPS            | 10.0    | 5.0    | 100% | 7.0    | 43%  | 15.0    | 12.0   | 25%  |

\*subsidiaries NPAT are reported as 100% attributable to owners

Source: AKD Research & Company Report

### Businesses Performance: Revenue (PkRmn)

| Subsidiaries  | 2QCY18E | QoQ | YoY | 1HCY18E | YoY |
|---------------|---------|-----|-----|---------|-----|
| EFERT         | 22,898  | 26% | 33% | 41,116  | 51% |
| EPCL          | 8,414   | -3% | 35% | 17,102  | 31% |
| EPQL          | 3,190   | 12% | 1%  | 6,032   | -2% |
| Vopak         | 795     | 4%  | 2%  | 1,560   | -1% |
| Elengy        | 3,096   | 5%  | 12% | 6,044   | 9%  |
| Consolidated* | 38,393  | 15% | 29% | 71,918  | 38% |

Source: Company Report & AKD Research

**Unconsolidated earnings seem unexciting:** We expect ENGRO's unconsolidated earnings for 2QCY18 to clock in at PkR926mn (EPS: 1.77) against net loss of PkR1.19bn (LPS: 2.28). Absence of dividend income from its subsidiaries in 1QCY18 is the major culprit behind



unexciting 2QCY18E result. On a cumulative basis, we expect ENGRO's 1HCY18E unconsolidated earnings to remain muted at PkR4.07bn (EPS: PkR7.78), down 1%YoY. Staggering 45%YoY decline in dividend income (realization of bumper dividend from EFOODS last year) is likely to be compensated by positive impact from normalized effective rate of 18% (43% previously) during 1HCY18, keeping bottom-line growth flattish.

### ENGRO: Earning Preview (unconsolidated)

| (PKRmn)         | 2QCY18 | 2QCY17  | YoY  | QoQ  | 1HCY18 | 1HCY17  | YoY  |
|-----------------|--------|---------|------|------|--------|---------|------|
| Dividend income | 210    | 225     | -7%  | -92% | 2,987  | 5,479   | -45% |
| Royalty income  | 220    | 216     | 2%   | 1%   | 438    | 349     | 25%  |
| Total income    | 430    | 441     | -3%  | -86% | 3,426  | 5,829   | -41% |
| Admin expenses  | (370)  | (361)   | 3%   | 81%  | (574)  | (506)   | 13%  |
| Other income    | 1,162  | 1,102   | 5%   | 15%  | 2,170  | 2,152   | 1%   |
| Other expenses  | (2)    | (3)     | -16% | n.a  | (2,41) | (3)     | -19% |
| Finance cost    | (32)   | (144)   | -78% | -9%  | (67)   | (277)   | -76% |
| NPBT            | 1,188  | 1,036   | 15%  | -68% | 4,952  | 7,194   | -31% |
| Taxation        | (261)  | (2,231) | -88% | -58% | (879)  | (3,089) | -72% |
| NPAT            | 926    | (1,195) | n.a  | -71% | 4,073  | 4,105   | -1%  |
| EPS (PKR)       | 1.77   | (2.28)  | n.a  | -71% | 7.78   | 7.84    | -1%  |

Source: AKD Research & Company Report

**Investment Perspective:** With questions still abound with regards to cash utilization prospects for ENGRO (current PkR65bn or PkR124/sh), recent run-up in ENGRO's prices (up 26%CYTD) has resulted in a downgrade of our stance to Neutral with our SOTP based Jun'19 TP standing at 348.8/sh. Going forward, developments with regards to, 1) capital reallocation plans, 2) upcoming flagship investment projects (Thar power project & SECMC - COD by Jun'19) and 3) improved performance by its subsidiaries (EFERT, EPCL & EPQL) are expected to keep ENGRO in the limelight.



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|            |                                    |
|------------|------------------------------------|
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| Accumulate | > 5% to < 20% upside potential     |
| Neutral    | ≤ 5% to ≥ -5% potential            |
| Reduce     | < -5% to > -20% downside potential |
| Sell       | ≤ -20% downside potential          |



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