



## Today's Daily

### ■ ENGRO: 1HCY17 Analyst Briefing Notes

ENGRO held its analyst briefing on Friday (Aug 18'17) to discuss its 1HCY17 earnings performance. To recall, ENGRO announced consolidated/unconsolidated NPAT of PkR3.78bn/PkR4.10bn (EPS: PkR7.21/PkR7.84) in 1HCY17, down 32%YoY/79%YoY. Key highlights of 1HCY17 consolidated result included: 1) weakening topline (down 22%YoY) due to classification of EFOODS as associates (post its partial divestment) despite 23%YoY/17% jump in EFERT/EPCL topline and 2) significantly higher effective tax rate of 64% in 2QCY17 vs. 40% in 2QCY16 on account of retrospective provisioning of ~PkR2.1bn super tax in this period in lieu of CY16. Along with the result, the company announced a second interim cash dividend of PkR7/sh, taking total payout to PkR12/sh. During the briefing, management hailed improved performance during 1HCY17 by its subsidiary EFERT (NPAT: +48%YoY) and EPCL (NPAT: +26.2xYoY) that diluted the impact of lower shareholding (strategic partial divestment) in EFOODS given its disappointing 1HCY17 performance (NPAT: down 91%YoY), on ENGRO's bottom-line. Besides, taking a long term view, ENGRO's management highlighted smooth progress at its flagship Thar coal mining & power project, which is currently 4 months ahead of its schedule and is expected to reach COD by Jun'19. Having lost 7%CYTD, we currently have a Buy stance on the scrip with our SOTP based Jun'18 TP standing at 374.2/sh (upside 26%).

#### KSE100 - Index

Current	43,078.38
Previous	43,136.06
Chg.	-0.13%

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

Current	8,991 / 85.31
Previous	8,983 / 85.23
Chg.	0.09%

#### Daily Turnover (mn)

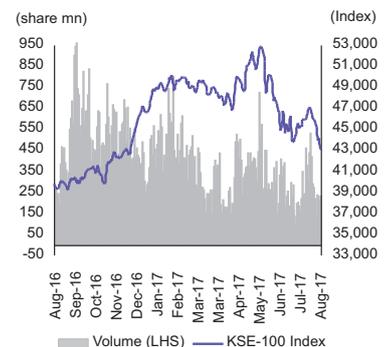
Current	188.14
Previous	167.27
Chg.	12.5%

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

Current	11,278 / 107.01
Previous	8,840 / 83.87
Chg.	27.6%

## News and Views

- NAB has filed an application before the Supreme Court, seeking permission to record the statements of the JIT members in the Panama leaks case. The application was submitted to Justice Ijaz-ul-Ahsan, the monitoring judge for the implementation of Jul'28 judgment.
- As per data provided by MoF, the country is bound to pay US\$7.43bn including US\$1.59bn interest in CY17 in lieu of external public debt. Total external debt payments for the CY18, CY19, CY20 and CY21 are US\$4.26bn, US\$7.07bn, US\$4.57bn and US\$5.79bn, respectively.
- As per recent data released by PBS, large scale manufacturing (LSM) sector grew by 5.6%YoY in FY17 vs. 5.7%YoY targeted for FY17, with Iron and steel sector registering growth of 20.48%YoY, followed by electronics, food & beverages, automobiles, and Pharma growing by 17.02%YoY, 11.49%YoY, 11.22%YoY, and 9.91%YoY, respectively.

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### ENGRO: Income Statement (Consolidated)

(PkRmn)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HCY17	1HCY16	YoY
Net sales	29,664	33,175	-11%	22,499	32%	52,241	66,768	-22%
Cost of sales	(21,779)	(25,436)	-14%	(15,787)	38%	(37,566)	(49,309)	-24%
Gross profit	7,885	7,739	2%	6,712	17%	14,675	17,459	-16%
Selling & dist exp.	(1,983)	(2,276)	-13%	(1,481)	34%	(3,464)	(4,710)	-26%
Admin exp.	(914)	(1,162)	-21%	(732)	25%	(1,647)	(2,084)	-21%
Other operating exp.	(467)	a (350)	34%	(289)	62%	(757)	(862)	-12%
Finance cost	(1,264)	(1,653)	-24%	(1,316)	-4%	(2,580)	(3,058)	-16%
Other income	3,225	1,564	106%	2,393	35%	5,618	2,765	103%
Share of income	231	281	-18%	450	-49%	681	589	16%
NPBT	6,712	4,144	62%	5,738	17%	12,527	10,100	24%
Taxation	(4,291)	(1,638)	162%	(1,519)	183%	(5,810)	(3,189)	82%
NPAT	2,421	2,506	-3%	4,219	-43%	6,717	6,912	-3%
Less: Profit attributable to NCI	1,547	678	128%	1,378	12%	2,940	1,393	111%
Profit attributable to Owners	874	1,828	-52%	2,841	-69%	3,777	5,519	-32%
EPS (PkR)	1.67	3.49	-52%	5.42	-69%	7.21	10.54	-32%

Source: Company Reports & AKD Research

**Super tax a major damper in 1HCY17:** Retrospective provisioning of ~PkR2.1bn super tax in lieu of CY16 dampened 1HCY17 earnings, where effective tax rate jumped to 46% in 1HCY17 vs. 32% in 1HCY16. To note, ENGRO's CY16 earnings included a one-time disposal gain of PkR112 /sh that elevated CY16 earnings to PkR132/sh. In this regard, the management



intends to challenge this levy basing their case on unjust imposition of super tax provision on one-time capital gain of EFOODS & EFERT, expecting a favorable outcome.

### ENGRO: Businesses performance (Pkr mn)

	Revenue			NPAT		
	1HCY17	1HCY16	YoY	1HCY17	1HCY16	YoY
ENGRO (standalone)	5,828	3,843	52%	4,105	19,339	-79%
Fertilizer (EFERT)	27,311	22,278	23%	4,166	2,817	48%
Foods (EFOODS & Eximp)	847	23,740	-96%	86	1,961	-96%
Polymer (EPCL)	12,992	11,117	17%	1046	40	26.2
Power (EPQL)	6,168	4,730	30%	1,253	1,245	1%
Other operations (Vopak & LNG)	4,923	4,904	0%	998	983	2%
ENGRO (consolidated)	52,241	66,768	-22%	3,777	5,519	-32%

Source: Co. Report & AKD Research

**EFERT remains the flagship business:** EFERT announced NPAT of Pkr4.10bn (EPS: Pkr3.08) on standalone basis in 1HCY17 (higher by 47%YoY) vs. NPAT of Pkr2.79bn (EPS: Pkr6.3) in 1HCY16 due to: 1) strong 23%YoY growth in topline to Pkr27.31bn caused by 55%YoY increase in Urea offtake to ~819k tons amid relatively stable urea prices, and 2) 17%YoY decrease in finance cost on account of swift deleveraging and low interest rate environment.

**EPCL depicts an impressive turnaround:** EPCL posted NPAT of Pkr1.05bn (EPS: Pkr1.58) in 1HCY17 (higher by 26.2xYoY) vs. NPAT of Pkr40mn (EPS: Pkr0.06) in 1HCY16. This significant uptick in 1HCY17 earnings resulted from, 1) 17%YoY growth in topline to Pkr13.05bn due to 15%YoY higher PVC sales and 2) impressive 9.9pptYoY jump in GMs to 22.6% owing to higher PVC prices and 60%YoY improvement in PVC - Ethylene core delta that averaged at US\$383/mt in 1HCY17 vs. US\$239/MT in 1HCY16. Going forward, we expect the company to maintain its improved performance taking support from the recently imposed regulatory duty of 2% on import of PVC and preliminary imposition of antidumping duties on import PVC resin. Both these recent step will be beneficial for growth of local PVC industry, where EPCL has a market share of ~32%.

**EPQL - recovery in earnings from a major overhaul & forced outage:** Higher earnings (1HCY17 EPS: Pkr4.77; up 24%YoY) in EPQL were due to normalization of grid issues pertaining to WAPDA and major overhaul carried last year, resulting in higher load factor of 94% in 1HCY17 vs. 43% in 1HCY16. Consequently, the company increased its net electrical output to 872GWh in 1HCY17 against 406GWh in CY14. Besides, management has negotiated Pkr110mn from insurance against the damages due to Guddu transformer Failure last year.

**EFOODS - declining margins continue to post problems :** EFOODS posted earnings of Pkr186mn (EPS: Pkr0.24/sh) in 1HCY17, down



91%YoY. The earnings decline is a factor of lower revenues (down 22%YoY) and margins (down 10ptsYoY) on account of increasing competitive forces limiting market share as well as company's ability to increase prices, in our view. More importantly, benefits of lower international milk prices also seems to have curtailed (FAO dairy index up 44%YoY in 1HCY17), further impacting margins. That said, the negative impact of subdued earnings on ENGRO's bottomline was limited with ENGRO's shareholding in EFOODS now standing at 40% vs. 87% in 1HCY16.

**Vopak & LNG business remains stable:** VOPAK continues to benefit from high handling volume of LPG (actual throughput of 733kT in 1HCY17 vs. 674kT in 1HCY16, up 9%YoY). On the LNG terminal front, SSGC has started utilizing additional 200mmscfd of spare LNG capacity after a revised arrangement in Mar'17, allowing EETL to handle 600mmcf of LNG at an average tolling fee of US\$0.479/mmbtu. LNG terminal handled 34 cargoes during 1HCY17 vs. 20 cargoes in 1HCY16 with the availability rate of 97.2%.

**SECMC and Thar Coal Power Project - ahead of schedule:** ENGRO's management highlighted smooth progress at its flagship Thar coal mining & power project, which is currently 4 months ahead of its schedule and is expected to reach COD by Jun'19. Progress on the project continues at a steady pace and 43% of the work has been completed to date.

**Investment Perspective:** Material developments with regards to: 1) capital reallocation plans (ENGRO to still have PkR60bn in cash remaining post Kolachi Kolachi Portgen (KPL) investment of PkR10.29bn), 2) upcoming investment projects (Thar power project, SECMC) and 3) MSCI inclusion (Mid Cap) has kept ENGRO in the limelight during most part of 1HCY17 (14% return during 1HCY17). While fertilizer dynamics continue to remain weak, we believe, 1) ENGRO's portfolio diversification in the high yielding energy businesses, 2) redeployment of a sizeable ~PkR60.8bn (US\$580mn) available in cash & cash equivalents post KPL investment and 3) expected synergies in EFOODS post takeover by FrieslandCampina alongwith turnaround in Polymer business (recovery in PVC margin and demand), are likely to catalyse growth. In the backdrop of recent correction where stock has lost 7%CYTD, we currently have a Buy stance on the scrip with our SOTP based Jun'18 TP standing at 374.2/sh. (upside 26%).



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