AKD Daily

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Today's Daily

ENGRO: Revised LNG deal and its impact

In a recent development, Engro Elengy Terminal Limited (EETL) and Sui Southern Gas Company (SSGC) have successfully entered into an arrangement allowing EETL to utilize its spare capacity of 200mmscfd, enabling it to handle 600mmcfd LNG at an average tolling fee of US$0.479/mmbtu. In this regard, Long-term Sale Purchase Agreement (LSA) amendment is in process and is expected to be finalized shortly. Recall, in Mar'16 the company had entered into a 2yr contract with SSGC whereby it was supposed to supply 400mmcfd at an avg. tolling fee of US$0.66/mmbtu. However, for utilization of available 200mmcfd, both the entities have reached a revised agreement under which the avg. tolling charges will come down to US$0.479/mmbtu for 600mmcfd vs. current US$0.66/mmbtu for 400mmcfd LNG supply. In this backdrop, at 100% utilization of handling capacity, net margin for LNG operations works out to 20% (down 0.4ppt earlier) despite 27.4% downward revision in tariff, courtesy better utilization of fixed & other operating cost at full capacity. Consequently, our annual earnings estimates for ENGRO from Elengy operations go up by PkR0.22/sh to PkR3.53/sh considering 80% stake in EETL. However due to equity disbursement by IFC, ENGRO shareholding in EETL was reduced to 80% (vs. 100% ownership) from 2HCY16. Consequently, overall contribution to ENGRO's bottomline from Elengy operation has now reduced by 0.60/sh from our previous estimates, slightly lowering our Dec'17 SOTP based TP for ENGRO by PkR3.9/sh to PkR370.2/sh.

KSE100 - Index	
Current	49,754.72
Previous	49,452.71
Chg.	0.61%

Mkt Cap. (PkRbn/US$bn)	
Current	9,827 / 93.74
Previous	9,762 / 93.12
Chg.	0.67%

Daily Turnover (mn)	
Current	245.07
Previous	237.06
Chg.	3.4%

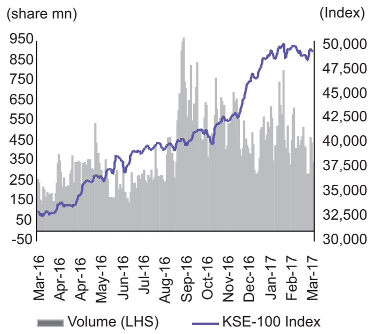
Value Traded (PkRmn/US$mn)	
Current	12,361 / 117.91
Previous	11,436 / 109.08
Chg.	8.1%

News and Views

- As per media reports, the International Monetary Fund (IMF) has refused to visit Islamabad for holding next round of talks with Pakistani authorities (earlier scheduled for last week of Feb'17) owing to security concerns, with the discussion now expected to be held in Dubai by end of Mar'17/Apr'17.

- As per reports, Urea sales decreased 38%MoM and 20%YoY to 251k tonnes in Feb'17. DAP sales in February clocked in at 92k tonnes, up 51%MoM/30%YoY. On a cumulative basis, urea sales remained unchanged at 657k tonnes during 2MCY17, while DAP grew 3%YoY to 153k tonnes in the same period.

- The SECP chairman briefed the Senate Standing Committee on Finance that anti-money laundering (AML) assessment of the country by international bodies would be done in 2018 and to comply with international rules the use of black money and illegal financing has to be stopped completely.



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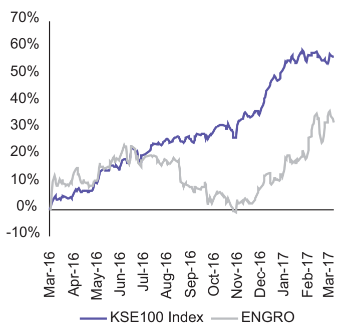
LNG Supply - New Energy chain: With country experiencing a gas shortfall of around 18-20bcf, Pakistan is forging ahead with alternatives, fast-tracking new LNG gas imports to minimise the shortfall. In this regard, the GoP has recently awarded two LNG supply tenders, where Italy's Eni won a 15yr contract while Swiss trading outfit Gunvor secured a 5yr deal at 12.29% and 11.62% of the Brent /mmbtu of LNG respectively. Moreover for handling the increased LNG supply, GoP has also gone ahead with LNG terminal-2 (EETL being the first one) to be set up by Pakistan Gas Port Limited (expected to come online from Jul'17) which will handle 600mmcfd of LNG at a levelised service charge of US$0.417/mmbtu.

Impact of new LNG deal on ENGRO: In Mar'16, the Engro Elengy Terminal Limited (EETL) entered into a 2yr contract with SSCG whereby it was supposed to supply 400mmcfd at an avg. tolling fee of US$0.66/mmbtu. However, for utilization of the spare 200mmcfd available , both the EETL and SSGC have recently reached another agreement under which the avg. tolling charges have come down to US$0.479/mmbtu for 600mmcfd from the current US$0.66/mmbtu for 400mmcfd LNG supply. In this backdrop, at 100% utilization of handling capacity, net margin for LNG operations works out to 20% (down 0.4ppt earlier) despite 27.4% downward revision in tariff, courtesy better utilization of fixed

ENGRO: Price Performance



Source: KSE & AKD Research

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Engro Elengy Operations

		Current	Revised
Days	A	365	365
mmscf/day	B	400	600
mmscf/yr	C=A*B	146,000	219,000
1mmscf=1025mmbtu	D	1025	1025
mmbtu/yr	E=C*D	149,650,000	224,475,000
Tariff (US$/mmbtu)	F	0.66	0.479
Revenue (US$)	G=E*F	98,769,000	107,523,525
Net margins	H	20.4%	20.0%
PAT (US$)	I=G*H	20,148,876	21,504,705
US$/PkR (CY17)	J	107	107
PAT (PkR)	K=I*J	2,163,359,630	2,308,933,295
Engro shareholding	L	100%	80%
PAT (PkR) - Engro's Share	M=K*L	2,163,359,630	1,847,146,636
No of Share- Engro	N	523,780,000	523,780,000
EPS (PkR)	0=M/N	4.13	3.53

Source: AKD Research

Investment Perspective: Considering ENGRO's push for lucrative investments into the energy chain amid chronic gas supply shortfall in the country, we feel setting up of another LNG terminal can not be ruled out. With cash in hand at ~PkR48bn, this also makes sense allowing the company to leverage on the infrastructure setup already in place. The stock has gained considerable 19% CYTD on anticipation of special dividend. Our SOTP-based TP of PkR370.2/sh for the scrip implies a Neutral stance where clarity on investment initiatives can turn us bullish on the stock.

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