

## “Buy” rating with target price of PKR 400 (37% potential upside)

### Business Review

On consolidated basis, Engro Corporation recorded an 8% increase in revenue up from PKR 38.4 billion in 1st Q-2014 to PKR 41.4 billion in 1st Q-2015. This increase came from the fertilizers, foods and polymers businesses, slightly offset due to lower power generation and rice sales. The earnings also increased significantly on the back of better margins from various businesses. The profit after tax grew from PKR 2,057 million in 1st Q-2014 to PKR 3,636 million in 1st Q 2015, posting an increase of 77% over the same quarter last period.

PKR	FY13-14	(E)FYE 14-15
Net Sales	175,958,342	170,453,336
Cost of Sales	(139,769,753)	(121,496,020)
Gross Profit	36,188,589	48,957,317
Selling & Distribution	(10,840,309)	(10,233,319)
Admin Exp	(3,963,882)	3,889,835
Other Income	3,719,042	4,643,487
Other Operating Expense	(2,499,562)	2,367,043
Finance Cost	(12,344,159)	9,688,834
Profit Before Tax	10,982,755	28,321,365
Taxation	(3,181,909)	(8,848,245)
Profit for the Period	7,800,846	19,473,120
EPS	14.89	37.18

### Engro Fertilizer

The company's urea production for the quarter stood at 486 KT as compared to 456 KT in the first quarter of the last year I.E. an increase of 6.6% mainly due to continuous operation of both plant during the first quarter. The Company' sold 481 KT of urea Vs. 451 KT in the first quarter of 2014 showing a growth of 6.6% and locking in an overall urea market share of 32% and a branded urea share of 40%. The Gross profit for the period was PKR 6,770 Million as compared to PKR 5652 Million in the same period last year. This increase was on account of higher sales volume and implementation of concessionary pricing effective from March 16 2015. As a result of the above, the Company has doubled its Net Profit to PKR 3,058 million from PKR 1,437 million for the same period last year which has resulted in an EPS of PKR 2.30/Share Vs PKR 1.12/Share in the comparative period last year.

### Engro Eximp

Company's rice business strategy was to minimize open exposure by locking in sales prior to paddy procurement. Within the first quarter, 9KT of paddy and 373 tons of unfinished rice was procured. The business exported 1,724 tons and locally sold 6,097 tons of rice during the quarter. The company's procurement strategy was focused on restricting quantities to the extent high quality paddy is procured. The approach resulted in price advantage during the purchase cycle and minimizes the losses. In short company was able to reduce its loss after tax to PKR 448 million for the quarter as compared to loss of PKR 612 million for the corresponding period last year. The rice margins are expected to remain under pressure due to excess supply situation in the local and export markets.

June 26-2015

**ENGRO: BUY**

**Current Price: 292**

**Target Price: 400**

**Key Data**

Ticker	ENGRO
52Week High(PKR/sh) Adj	<b>318.99</b>
52Week Low(PKR/sh)Adj	<b>154.99</b>
Market Cap.(PKR Bn)	<b>153.91 B</b>
P/E Ratios 2015(E)	<b>7.85</b>

	EPS	ROCE%
2011	15.28	14
2012	2.61	12
2013	16.01	16
2014	13.59	13

	P/E (ADJ)	G.P Ratio%
2011	19	28
2012	111	23
2013	18	26
2014	21	21

	PAT(Millions)	EBITDA
2011	7,811	29,813
2012	1,797	26,330
2013	8,325	37,030
2014	7,801	32,306

	Debt/Equity	Interest Cover
2011	2.49	1.93
2012	2.34	1.16
2013	1.67	1.18
2014	1.08	1.89

**Research Desk**

**Email:** [equitydesk@iconcapital.net](mailto:equitydesk@iconcapital.net)

**Website:** [www.iconcapital.net](http://www.iconcapital.net)

## Engro Foods

Efoods had a resounding start to the year with 25% growth in revenues and 385% growth in overall profitability, YoY basis, on the back of robust performance in the dairy and beverages segment. Revenue for the period was PKR 12.6 billion versus PKR 41 billion in same period last year, while the overall profits were PKR 1,069 million versus PKR 190 million in the same period last quarter. Sustained and impactful investment on brands and effective pricing strategy were the key element in achieving double digit growth, further accentuated by favorable commodity prices. Dairy and beverages segment built on the momentum it created in 4Q14 whereby the segment witnessed volumetric growth around of around 22% in 1<sup>st</sup> Q versus the same period last year. Efoods share of the dairy market was 56% as of February 2015 (as per AC NIELSEN). Segment reported a top-line of PKR 12 billion registering a growth of 26% versus the same period last year. Profit after tax for the 1<sup>st</sup> quarter was PKR 1,172 million showing increase of 165% versus the same period last year. The increase was due to higher volumes as well as lower milk procurement prices, fuel and energy cost. Ice-cream business witnessed volumetric growth of 16% versus the same period last year. This growth was led by consumer relevant product launches, geographical expansion and operational excellence in distribution network. Dairy farm also remains profitable of PKR 33 million for 1<sup>st</sup> Q-2015 versus loss of PKR 20 million during 1<sup>st</sup> Q-2014, this is due to impact of animal's valuation and better yield. We expect company to perform better in coming quarters due to overall improving macro-economic indicators and declining in commodity prices. The will is expected to maintain growth due to significant brand investments and improving operation efficiencies.

## Engro Powergen

EPQL earned PAT of PKR 459 million in 1st Q-2015 versus PKR 585 million in the same period last year, as a result of QAPDA grid issues resulting in lower Net Electric Output of 365 GWh dispatched to the national grid versus 442 GWh dispatched in the same period last year. This resulted in lower load factor of 79% compared to 95% in 1st Q-2014. At the quarter end, overdue receivable from PEPCO stood at PKR 1,852 million versus PKR 1,210 million at the last year end. The overdue payable to SNGPL at quarter-end was PKR 329 million versus PKR 232 million at year end.

## Engro Polymer

EPolymer posted revenues of PKR 6.7 billion in 1<sup>st</sup> Quarter-2015 versus PKR 5.4 billion in same period last year. 61% increase in domestic PVC sales to 40.3 kt and 9% increase of caustic domestic sales to 23.7KT as compared to same period last year accounted for the 25% increase in revenues versus same period last year. Despite higher sales volume, company posted a loss after tax of PKR 107 million versus profit after tax of PKR 148 million for the same period last year, due to higher energy prices, duty impact on raw material and high cost raw material inventory carried over from last year. Product margins will remain under pressure due to high energy prices and further increase in energy prices could be a possible challenge during next quarter.

## Engro Vopak

The company recorded revenue of PKR 646 million and PAT of PKR 431 million during 1st Q 2015 versus PKR 518 million and PKR 394 million respectively during the same period last quarter. The increase in top and bottom line mainly came from positive tariff impact of LPG import as SSGCL's terminal remained close for the first two months and all LPG imported to the country was therefore handled by EVTL.

Research Desk  
Email: [equitydesk@iconcapital.net](mailto:equitydesk@iconcapital.net)  
Website: [www.iconcapital.net](http://www.iconcapital.net)  
Tel: +92 21 32432316-20

Our coverage on Engro Corporation Ltd (Engro), Pakistan's most diversified Conglomerate with a **"Buy"** rating with target price of PKR 400 (37% potential upside) . Our liking of the stock stems from the following reasons:

- We expect a stellar earnings growth in Engro and project 3-year earnings CAGR of 45% through 2014-17E on the back of strong turnaround in profitability of its subsidiaries led by the fertilizer segment and reduction/elimination of losses in nonperforming business
- Aggressive de-leveraging on both standalone level and subsidiary level is expected to provide an additional boost to profitability. Most of debt stems from Fertilizer and Power businesses, which are likely to see steep de-leveraging over the next few years.
- New ventures like Engro Elengy Terminal (ETPL) are further expected to boost profitability in the coming years.
- EFOODS is showing very strong fundamentals in terms with volumetric sales and increasing margins.
- Strong off-take amid better gas supply and lower feed cost driving EFERT's profitability in 2015E & value addition through new projects like the LNG terminal (Engro Elengy) and coal-based power project.

## About the company

Engro Corporation Limited has 511mn shares outstanding and is listed on all the three Stock Exchanges of Pakistan. Engro Corporation Limited is the parent company of Engro Fertilizer which is the largest urea manufacturer in the country on the basis of capacity. Engro Fertilizer Limited now has a total name plate capacity of 2.3mn tons per annum of urea and blended fertilizer (NPK) plant. The company imports and sells phosphatic fertilizers for balanced fertility and improved farm yields. Engro Corporation also has major investments in dairy, power, business solutions, and port handling and polymer industries. Currently Engro Corp's three subsidiaries (Engro Fertilizer, Engro Polymer and Chemical Ltd and Engro Foods Ltd) are listed.

Research Desk

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