

July 13-2015

Earnings reduced on 9M FY-15 inventory losses

So far 9 months cumulative earnings of the company are reduced by 83% from same period last year. Reduction is due to significant decline in international oil prices which resulted in heavy inventory losses along with couple of other factors. The profit after taxation (PAT) of the company summed PKR 3,242 million (EPS: PKR 11.93) in 9MFY15 versus a PAT of PKR 19,400 million (EPS: PKR 71.41) in 9MFY14.

In accumulation to lower crude oil prices, the profitability of the company was affected by 47% YoY decline in other income due to lower penal income and 17% YoY surge in finance costs. The performance of the company was more cheerless in 3QFY15 alone where it had underwent from a loss after taxation of PKR 1,041 million (LPS: PKR 3.83) down from a PAT of PKR 8,001 million (EPS: PKR 29.45) in 3QFY14. This decline was also mainly attributed to heavy inventory losses while decline in other income and higher financing cost too had a negative impact on the bottom-line.

Major hit by lesser revenue

The major knockout to the bottom-line was given by decline in net revenue by 21% YoY to PKR 682,217 million in 9MFY15 as opposed to PKR 861,457 million in the identical period in FY-14. The decline in net revenue was on back of fall in petroleum product prices along with lower volumetric sales. The cost of sales of the company reduced to PKR 668,065 million throughout the period under review which is 20% YoY down from PKR 831,914 million in 9MFY14. Therefore the gross profit fell by 52% YoY to PKR 14,152 million in 9MFY15 as opposed to PKR 29,543 million in 9MFY14.

Lower furnace oil sales drag volume

The overall volumetric sales of the company dropped owing to 12% YoY drop in the sales volume of furnace oil to 4,398k tons in 9MFY15 as opposed to 5,018k tons in the same period in FY14. The sales volume of High Speed Diesel (HSD) too weakened totaling 2,547k tons during the period under review which 1% YoY less from 2,564k tons in 9MFY14. However on back of improved demand, the volumetric sales of Mogas went up to 1,561 k tons in 9MFY15 which is 14% YoY more from 1,371k tons in 9MFY14.

Future Outlook

In future we expect company to recover from inventory loss on recovering oil prices & posting inventory gains due to recovery in international oil prices with high volumetric sales. Consequently the company is expected to come back in profits in 4QFY15 as against net loss in 3QFY15. We also flag that we are yet to incorporate earnings impact arising from import of LNG given lack of details on the project. At current price, we advise to buy this share with target price of 800/Share for FY-15/16.

PSO: BUY**Current Price: 379****Target Price: 800****Key Data**

Ticker	ENGRO
52Week High(PKR/sh) Adj	408.05
52Week Low(PKR/sh)Adj	325.63
Market Cap.(PKR Bn)	103

	EPS	ROCE%
2011	86.17	66.16
2012	52.80	47.52
2013	50.84	41.29
2014	80.31	52.73

	P/E (ADJ)	G.P Ratio%
2011	4.4	3.52
2012	7.17	2.86
2013	7.45	2.64
2014	4.72	2.61

	PAT (Millions)
2011	14,779
2012	9,056
2013	12,638
2014	21,818

	Break-up Value
2011	243
2012	281
2013	245
2014	289

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