Foundation Securities
A Fauji Foundation Group Company
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Earning Review

ENGRO: 3QCY21 EPS clocked in at Rs10.6, DPS 5.0

Event

- Engro Corporation (ENGRO PA) profitability clocked in at Rs6.1bn (EPS Rs10.6) in 3QCY21, down significantly by 34% YoY against Rs9.3bn (EPS Rs16.1) in 3QCY20, taking 9MCY21 profitability to Rs23.2bn (EPS Rs40.2) against Rs18.3bn (EPS Rs31.8), up 26% YoY.
- The result is accompanied with a cash payout of Rs5.0/sh, taking total payout to Rs24.0/sh in 9MCY21.

Impact

- We attribute drop in profitability to lower contribution from Fertilizer and Power businesses.
- Company's fertilizer segment profitability declined by ~37% YoY due to 1) lower Urea/DAP offtake, (2) higher other operating expense due to reversal of GIDC re-measurement gain, (3) revision in pricing of concessionary gas on feedstock gas for EnVen plant and (4) increased repair & maintenance cost due to turnaround of its EnVen plant in 3QCY21.
- Fertilizer segment UREA/DAP offtake clocked in at ~561/103K tons (down 9/46% YoY/QoQ) in 3QCY21. DAP offtake declined due to lower imports by the company given volatile international prices, in our view. Segment finance cost declined by 35% YoY in 3QCY21 due to improved cash position of the company.
- Fertilizer segment also booked reversal of ~Rs270mn GIDC re-measurement gain booked earlier and Rs108.3mn reversal of expected credit loss booked earlier on subsidy receivable from Gov't.
- Polymer business profitability increased on the back of (1) higher volumetric sales due to capacity expansion coming online, (2) 71% YoY increase in PVC-Ethylene margins (avg. margin of US$839/ton during 3QCY21) and (3) efficient plant operations. EPCL's expansion of 100K tons came online from March 2021 and has increased PVC capacity to 295K tons.
- Efficiency projects and Hydrogen Peroxide are expected to come online in 2021/2023 and 1HCY23 respectively.
- Share of profit from JV declined to Rs531mn in 3QCY21 against Rs804mn in 3QCY20, due to lower contribution from terminal businesses, in our view.
- We attribute increase in food segment profitability to 1) increase in price for UHT milk, (2) increased sales of Olpers due to change in preferences towards packaged milk amid outbreak of COVID-19, (3) lower finance cost, (4) higher other income and (5) abolishment of custom duty on import of skimmed milk powder in Federal Budget FY21.
- EPTPL and EPQL profitability is probably hit by reduced dollar indexation by 6.1% YoY.

Outlook

- Improved profitability outlook of fertilizer and polymer business along with probable project completion of EPTPL would make a strong investment case for the scrip. However, Concerns over collection of GIDC on concessionary gas, removal of inter corporate tax exemptions and threat of ROE renegotiations for power projects would keep the stock performance in check.
- Moreover, unfolding of further plans regarding utilization of residual cash withheld by the company would provide further upside to our valuation.

Fig 1: 3QCY21 Financial Highlights

	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Revenue	**84,262**	**75,333**	**12%**	**23%**	**223,581**	**182,497**	**23%**
Cost of sales	61,269	53,512	14%	34%	152,942	127,752	20%
Gross profit	**22,993**	**21,821**	**5%**	**1%**	**70,639**	**54,745**	**29%**
Selling & distribution expenses	1,972	2,353	-16%	9%	5,436	5,528	-2%
Administration Expenses	1,458	1,710	-15%	-7%	4,285	4,514	-5%
EBIT	19,562	17,758	10%	1%	60,919	44,703	36%
Other operating income	2,159	1,874	15%	-34%	7,847	8,874	-12%
Other operating expense	2,285	232	884%	22%	5,297	3,880	37%
Finance cost	3,591	2,673	34%	-18%	11,540	13,938	-17%
Share of income from JV	531	804	-34%	-38%	2,409	1,947	24%
Profit before taxation	**16,377**	**17,530**	**-7%**	**-5%**	**54,338**	**37,705**	**44%**
Taxation	4,983	1,984	151%	66%	13,833	6,364	117%
Profit after taxation	**11,394**	**15,546**	**-27%**	**-21%**	**40,505**	**31,341**	**29%**
Owner of the holding company	**6,119**	**9,266**	**-34%**	**-30%**	**23,173**	**18,325**	**26%**
EPS	**10.6**	**16.1**			**40.2**	**31.8**	
DPS	**5.0**	**10.0**			**24.0**	**24.0**	

Source: PSX, Foundation Research, October 2021

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Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.