**PAKISTAN** **February 17, 2022**

# Earning Review

## ENGRO: 4QCY21 EPS clocked in at Rs8.3, DPS 1.0

### Event

- Engro Corporation (ENGRO PA) profitability clocked in at Rs4.8bn (EPS Rs8.3) in 4QCY21, down by 22% YoY against Rs6.8bn (EPS Rs11.8) in 4QCY20, taking CY21 profitability to Rs27.9bn (EPS Rs48.5) against Rs25.1bn (EPS Rs43.6), up 11% YoY.
- The result is accompanied with a cash payout of Rs1.0/sh, taking total payout to Rs25.0/sh in CY21.

### Impact

- We attribute drop in profitability to higher administration expense, lower other income, higher other operating expense, and lower profitability of fertilizer and EPQL.
- Company's fertilizer segment profitability declined by ~7% YoY due to 1) lower Urea 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, (4) reduced other income and (5) higher taxation charge.
- Fertilizer segment UREA/DAP offtake clocked in at ~551/296K tons (down/up 3/32.7% YoY) in 4QCY21. DAP offtake increased due to lower inventory levels of competitors given volatile and elevated international prices, in our view. Urea offtake decreased during the quarter given better sales in the earlier part of the year. Segment finance cost declined by 29% YoY in 4QCY21 due to improved cash position of the company.
- Polymer business profitability increased on the back of (1) higher volumetric sales due to capacity expansion coming online, (2) 58% YoY increase in PVC-Ethylene margins (avg. margin of US$1,084/ton during 4QCY21) and (3) efficient plant operations. EPCL's expansion of 100K tons came online from March 2021 and has increased PVC capacity to 295K tons.
- Oxy Vent Recycle efficiency project is nearing completion which will improve raw material efficiency ratio. High Temperature Direct Chlorination efficiency project and Hydrogen Peroxide project are expected to come online in 2023.
- Share of profit from JV declined to Rs818mn in 4QCY21 against Rs849mn in 4QCY20, due to lower contribution from terminal businesses, in our view.
- We attribute increase in food segment profitability to 1) increase in price of UHT milk, (2) increased sales of Olpers due to change in preferences towards packaged milk amid outbreak of COVID-19, (3) higher other income, (4) lower finance cost and (5) strong growth in the ice cream segment.
- EPQL profitability is probably hit by lower utilization due to reduction in merit order number for permeate gas and operations of plant at mixed fuel (gas and HSD).

### Outlook

- We have an "Outperform" stance on the scrip with Dec'22 TP of Rs322. We believe that improved profitability outlook of fertilizer business and elevated profits of polymer segment along with probable project completion of EPTPL would make a strong investment case for the scrip. However, collection of GIDC on concessionary gas, progress of telecom venture and threat of ROE renegotiations for power projects would remain key concern for price performance.
- Moreover, unfolding of further plans regarding utilization of residual cash withheld by the company would provide further upside to our valuation.

**Fig 1: 4QCY21 Financial Highlights**

| | 4QCY21 | 4QCY20 | YoY | QoQ | CY21 | CY20 | YoY |
|---|---|---|---|---|---|---|---|
| **Revenue** | **88,007** | **66,321** | **33%** | **4%** | **311,587** | **248,818** | **25%** |
| Cost of sales | 59,191 | 45,021 | 31% | -3% | 212,133 | 172,773 | 23% |
| **Gross profit** | **28,815** | **21,300** | **35%** | **25%** | **99,455** | **76,045** | **41%** |
| Selling & distribution expenses | 2,383 | 2,317 | 3% | 21% | 7,819 | 7,845 | 0% |
| Administration Expenses | 3,374 | 2,671 | 26% | 131% | 7,659 | 7,185 | 7% |
| **EBIT** | **23,058** | **16,312** | **41%** | **18%** | **83,977** | **61,014** | **38%** |
| Other operating income | 4,375 | 8,864 | -51% | 103% | 12,222 | 17,738 | -31% |
| Other operating expense | 5,614 | 3,774 | 49% | 146% | 10,912 | 7,655 | 43% |
| Finance cost | 5,734 | 6,535 | -12% | 60% | 17,274 | 20,473 | -16% |
| Share of income from JV | 818 | 849 | -4% | 54% | 3,227 | 2,796 | 15% |
| **Profit before taxation** | **16,902** | **15,716** | **8%** | **3%** | **71,240** | **53,421** | **33%** |
| Taxation | 4,824 | 2,666 | 81% | -3% | 18,657 | 9,030 | 107% |
| **Profit after taxation** | **12,077** | **13,050** | **-7%** | **6%** | **52,582** | **44,391** | **18%** |
| | | | | | | | |
| **Owner of the holding company** | **4,769** | **6,775** | **-30%** | **-22%** | **27,942** | **25,100** | **11%** |
| **EPS** | **8.3** | **11.8** | | | **48.5** | **43.6** | |
| **DPS** | **1.0** | **2.0** | | | **25.0** | **26.0** | |

Source: PSX, Foundation Research, February 2022

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**Recommendations definitions**

If

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