Foundation Securities
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Foundation Alert

ENGRO: Analyst Briefing Takeaways

Event

- Engro Corporation Limited (ENGRO PA) held its Analyst Briefing today to discuss financial performance during CY21 and future prospects of the company. Following are the key takeaways of the company.

Impact

- Engro Corporation (ENGRO PA) profitability clocked in at Rs27.9bn (EPS Rs48.5, up 11% YoY) in CY21 against Rs25.1bn (EPS Rs43.6) in CY20.
- Management attributes increase in profitability to (1) better profitability of fertilizer business due to increase in Urea offtake, (2) highest ever profitability of EPCL on account of increased volumes and better margins and (3) increase in profitability of FCEPL and from other investments.
- ENGRO consolidated revenue grew by 25% YoY from Rs248.8bn during CY20 to Rs311.6bn during CY21.
- Management attribute this increase in revenue to higher contribution from polymer and fertilizer businesses. Polymer business revenue increased on the back of higher PVC volumes amid increasing market share enabled by completion of capacity expansions, while fertilizer business sales increased due to higher Urea offtake and increase in DAP prices.
- Company's fertilizer segment profitability increased by 16% YoY due to (1) higher Urea offtake amid better retention prices, (2) better DAP trading margins, (3) lower finance cost, and (4) higher other income.
- Fertilizer segment Urea offtake clocked in at 2,295tons (up 12% YoY) in CY21. Management attributes higher offtake to large carryforward inventory by the company amid better agronomics. Furthermore, company's fertilizer segment Urea production declined by 7.1% YoY to 2,105K tons in CY21 due to plant maintenance of EnVen in Sep'21 and lower production in 1HCY21.
- Polymer business profitability increased due to (1) higher volumetric sales given capacity expansion coming online, (2) efficient plant operations and (3) historically high international PVC prices. EPCL's expansion of 100K tons came online from March 2021 and has increased PVC capacity to 295K tons.
- Management has also discussed detail of dividends received by the company and disclosed that company has received Rs11.6/6.2/1.2/0.4/0.02bn dividend from EFERT/EPCL/Engro Vopak/Engro Elengy/Engro Eximp during CY21.
- Engro elengy terminal Re-gasified 72 LNG vessels for SSGC. The Engro elengy business conducted country's first ever dry docking activity by replacing its FSRU, ensuring gas supply continuity during the dry docking period. Management expects, LPG volumes through marine route to remain under pressure in the short term due to increased movement through the land route at Taftan and the newly inaugurated entry point at border post-250.
- Engro enfrashare expanded its footprint further in the tower business and achieved a milestone of 2,246 sites in CY21 against 1,265 in financial year 2020. So far, engro enfrashare has secured projects of worth Rs30bn. Tenancy ratio remained at 1.1x during the CY21.
- Engro has formed Engro Connect (Pvt.) Limited as a dedicated platform for connectivity and telecom infrastructure related initiatives. The equity investment of Rs21.5bn in E-Connect will allow Engro to became 5000+ tower company by raising optimal levels of debt. Management expects EBITDA generation of Rs7bn at tenancy ratio of 1.33x by 2025 with total investment of Rs60bn. E-Connect aims to convert 50% of the towers to solar for energy saving.

- In Petrochemical complex, company has allocated US$32mn for feasibility study. Company has signed tech licensors contracts with Honeywell and Grace for PDH and PP respectively. Moreover, project FEED study kicked off with Maire Technimont as engineering contract and is expected to be completed by the end of CY22.
- The project if executed will have a market size of US$750mn and will provide significant import substitution with investment of above ~US$2.0bn across all verticals.
- Furthermore, Engro Energy has also signed a MOU with Sindh Transmission & Dispatch Company and Directorate of Alternative Energy to establish Pakistan first hybrid renewable park that will generate 400MW of electricity (240MW through wind and 160MW through solar).

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.