

Earning Review

ENGRO: 4QCY22 EPS clocked in at Rs15.5, DPS 1.0

Event

- Engro Corporation (ENGRO PA) reported profit of Rs8.9bn (EPS Rs15.5) in 4QCY22, up by 87% YoY, against profitability of Rs4.8bn (EPS Rs8.3) in 4QCY21. This cumulates into profitability of Rs24.3bn (EPS Rs42.2) in CY22, down by 13% YoY, against profitability of Rs27.9bn (EPS Rs48.5) in CY21.
- The result is accompanied with a cash payout of Rs1.0/sh, taking full year payout to Rs34.0/sh.
- The result is above our expectation given reversal of provision for Super tax in accordance with Sindh High Court decision.

Impact

- We attribute higher profitability to reversal of provision for Super tax and higher other operating income along with increased contribution of power segment despite lower contribution from polymer segment.
- EPTPL benefited from improved dollar indexation by 34.5% YoY and higher interest income on delayed payments.
- Company's fertilizer segment reported profit at Rs6.4bn (EPS Rs4.8, up 3.8% YoY) in 4QCY22 against Rs6.2bn (EPS 4.62) in 4QCY21. Fertilizer profitability increased due to reversal of provision for super tax and higher other operating income due to selling of scrap. However, gross margin of the fertilizer segment declined 10.1ppts YoY owing to (1) lower Urea offtake due to lower production on the back of planned maintenance, (2) lower DAP margins and (3) higher plant maintenance cost.
- Fertilizer segment finance cost increased by 2.9x YoY in 4QCY22 due to increase in interest rates and higher working capital requirements due to higher DAP prices.
- EFERT also booked reversal of Rs839mn on account of GIDC re-measurement gain booked earlier and fresh provision of Rs523mn expected credit loss on subsidy receivable from Government.
- Polymer segment profitability decreased by 50% YoY in 4QCY22 on the back of (1) sharp drop in PVC prices and Core Delta given worsening global macroeconomic and geopolitical developments, (2) an interim agreement with SSGC for supply of RLNG till 28th February 2023, (3) increase in cost of doing business given unprecedented devaluation and inflationary pressures and (4) supply chain disruptions resulting from frequent COVID-19 related lockdowns in China.
- EPCL reported PVC sales at 67KT during 4Q. Pipes and fittings remained major application of PVC with 57% market share followed by Film & Sheet with 14% market share. Company sold 28KT of Caustic liquid and flakes during 4Q.
- Share of profit from JV clocked in at Rs1,125mn, up 38% YoY, mainly due to higher profitability of terminal businesses, SECMC and food business, in our view.
- Sindh Engro Coal Mine successfully completed Phase II expansion, doubling its existing capacity to 7.6 million tons per annum with effect from October 1, 2022.
- We attribute increase in food segment profit to (1) increase in price for UHT milk amid higher market share of Olpers, (2) increase in other income due to fair value gain on biological assets and (3) higher profitability of ice-cream segment given decline in vegetable oil prices.

Outlook

- We have an “Outperform” stance on the scrip with Dec’23 TP of Rs322.1. Commencement of dividend income from Thar coal power plants and potential for inorganic growth in telecom business along with utilization of cash through venturing into Petrochemical complex and renewable projects makes a strong investment case for the scrip. Moreover, materialization of buyback equivalent to 12.1% of shares at market price would provide further impetus to stock price.

Fig 1: 4QCY22 Financial Highlights

	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Revenue	87,688	88,007	0%	-1%	356,428	311,587	14%
Cost of sales	63,884	59,191	8%	5%	251,808	212,133	19%
Gross profit	23,803	28,815	-17%	-13%	104,619	99,455	5%
Selling & distribution expenses	3,843	2,383	61%	103%	9,326	7,819	19%
Admin Expenses	4,395	3,374	30%	163%	11,777	7,659	54%
EBIT	15,565	23,058	-32%	-34%	83,517	83,977	-1%
Other operating income	8,121	2,429	234%	104%	21,874	10,277	113%
Other operating expense	2,127	5,614	-62%	-21%	11,661	10,912	7%
Finance cost	9,630	5,734	68%	88%	28,744	17,274	66%
Share of income from JV	1,125	818	38%	14%	3,215	3,227	0%
Profit before taxation	13,053	16,902	-23%	-37%	68,201	71,240	-4%
Taxation	(2,348)	4,824	-149%	-140%	22,090	18,657	18%
Profit after taxation	15,401	12,077	28%	3%	46,111	52,582	-12%
Owner of the holding company	8,901	4,769	87%	12%	24,332	27,942	-13%
EPS	15.5	8.3			42.2	48.5	
DPS	1.0	1.0			34.0	25.0	

Source: PSX, Foundation Research, February 2023

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