

## Earning Review

### ENGRO: 1QCY23 EPS clocked in at Rs8.2, DPS 40.0

#### Event

- Engro Corporation (ENGRO PA) reported profit of Rs4.6bn (EPS Rs8.1) in 1QCY23, down by 42%/48% YoY/QoQ, against profitability of Rs8.0bn (EPS Rs13.8) in 1QCY22.
- The result is accompanied with a cash payout of Rs40.0/sh.
- The result is below our expectation given loss from share of joint ventures and higher than expected finance cost.

#### Impact

- We attribute decline in profitability to lower contribution from fertilizer, polymer and share of joint ventures.
- EPTPL benefited from improved dollar indexation by 27.5% YoY and higher interest income on delayed payments.
- Company's fertilizer segment reported profit at Rs4.4bn (EPS Rs3.3) in 1QCY23, down 20/31% YoY/QoQ against Rs5.5bn (EPS 4.13) in 1QCY22. Fertilizer profitability decreased due (1) higher gas prices, (2) decline in phosphate offtake and (3) higher loss on subsidy receivables from GoP.
- EFERT also booked reversal of Rs220mn on account of GIDC re-measurement gain booked earlier and loss allowance of Rs432mn expected credit loss on subsidy receivable from Government.
- Polymer segment profitability decreased by 75% YoY in 1QCY23 on the back of (1) 47% YoY lower PVC-Ethylene margin (avg. margin of US\$433/ton during 1QCY23), (2) company decision to purchase RLNG at OGRA notified prices from Nov'29, 2022 to Feb'28, 2023 as opposed to lower cost system gas due to its unavailability and (3) 93% YoY higher finance cost despite ~31.7% YoY depreciation of average Rs-US\$ exchange rate.
- EPCL reported PVC sales at 52KT during 1QCY23 versus 67/64KT in 4QCY22/1QCY22. Pipes and fittings remained major application of PVC with 53% market share followed by Film & Sheet with 17% market share. Company sold 14KT of Caustic liquid and flakes during 1QCY23 compared to 21/17KT during 4QCY22/1QCY22.
- Share of loss from JV clocked in at Rs124mn, against share of profit of Rs988mn in the same period last year despite increase in contribution from food business. We await clarity on this front.
- We attribute increase in food segment profit to (1) increase in price for UHT milk amid higher market share of Olpers, and (2) higher profitability of ice-cream segment given decline in vegetable oil prices.
- Finance cost of the company increased by 2.2x YoY given 779bps increase in 6M KIBOR amid high leverage of telecom and power businesses.

#### 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 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: 1QCY23 Financial Highlights

	1QCY23	1QCY22	YoY	QoQ
<b>Revenue</b>	97,332	88,333	10%	11%
Cost of sales	71,770	61,116	17%	12%
<b>Gross profit</b>	<b>25,563</b>	<b>27,218</b>	<b>-6%</b>	<b>7%</b>
Selling & distribution expenses	2,087	1,889	11%	-46%
Administration Expenses	3,061	1,671	83%	-30%
<b>EBIT</b>	<b>20,415</b>	<b>23,658</b>	<b>-14%</b>	<b>31%</b>
Other operating income	6,856	2,429	182%	-16%
Other operating expense	2,421	2,700	-10%	14%
Finance cost	11,105	5,128	117%	15%
Share of income from JV	(124)	988	-113%	-111%
<b>Profit before taxation</b>	<b>13,622</b>	<b>20,805</b>	<b>-35%</b>	<b>4%</b>
Taxation	4,825	5,908	-18%	na
<b>Profit after taxation</b>	<b>8,797</b>	<b>14,897</b>	<b>-41%</b>	<b>-43%</b>
<b>Owner of the holding company</b>	<b>4,647</b>	<b>7,972</b>	<b>-42%</b>	<b>-48%</b>
<b>EPS</b>	<b>8.1</b>	<b>13.8</b>		
<b>DPS</b>	<b>40.0</b>	<b>12.0</b>		

Source: PSX, Foundation Research, April 2023

Analyst

Muhammad Awais Ashraf, CFA  
+92 21 3561 2290-94

m.awais@fs.com.pk  
Ext 338

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

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