



## Today's Daily

### ■ ENGRO Corp. CY11 Result Preview

ENGRO is scheduled to announce its full year CY11 results on Feb 16'12. Despite all the negatives mainly emanating from the gas curtailment at ENVEN, the company is still expected to post an earnings growth of 13%YoY in CY11, with NPAT expected at PkR7,662mn (EPS: PkR19.48). Furthermore, we expect a final cash dividend of PkR2/share taking full year payout to PkR6/share, while a bonus announcement of 10% cannot be ruled out as well.

#### KSE 100 - Index

Current	12,213.24
Previous	12,263.25
Chg.	-0.41%

#### Mkt Cap. (PkRbn/US\$bn)

Current	3,183 / 35.10
Previous	3,195 / 35.23
Chg.	-0.37%

#### Daily Turnover (mn)

Current	139.14
Previous	243.30
Chg.	-42.8%

#### Value Traded (PkRmn/US\$mn)

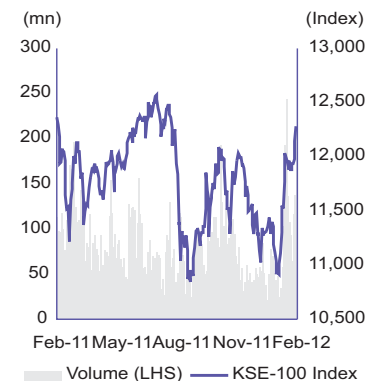
Current	3,093 / 34.11
Previous	5,906 / 65.12
Chg.	-47.6%

#### SCRA Flow FYTD (US\$mn)

8-Feb-12	(223.95)
7-Feb-12	(226.24)
Val. Chg	2.29

### News and Views

- A meeting with the Council of Common interests (CCI) presided over by PM Gilani has approved the Petroleum Exploration and Production Policy in principle and is likely to increase well head price from average US\$3.5/mmbtu to US\$6.0/mmbtu for attracting more investment in Oil and Gas sector.
- Sindh Home Minister Manzoor Wasan has said that general elections will be held on Oct 18,'12.
- The FBR will reportedly convey its strong reservations over the proposed regime of CGT to the Ministry of Finance on two key issues: 1) exemption from section III (unexplained income or assets) of the Income Tax Ordinance 2001 to investment made in stock market upto Jun 30,'14 and 2) declaring NCCPL as a withholding agent to deduct and deposit CGT from investors.
- OGDCL has reportedly violated rules by negotiating and selling 120tonnes of LPG from Kunar Parsaki field to Sui Southern Gas Company LPG (Pvt) Ltd rather than open tenders.



**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.



## ENGRO Corp. CY11 Result Preview

ENGRO is scheduled to announce its full year CY11 results on Feb 16'12. Despite all the negatives mainly emanating from the gas curtailment at ENVEN, the company is still expected to post an earnings growth of 13%YoY in CY11, with NPAT expected at PkR7,662mn (EPS: PkR19.48). Furthermore, we expect a final cash dividend of PkR2/share taking full year payout to PkR6/share, while a bonus announcement of 10% cannot be ruled out as well.

**CY11 result preview:** Despite all the apparent negatives emanating from the gas curtailment at ENVEN, ENGRO is still expected to post an earnings growth of 13%YoY following significant rise in profitability of EFOODS and Power subsidiaries, while the Fertilizer subsidiary also managed to chip in following an earnings growth of 23%YoY. EFOODS has been the real turnaround story for ENGRO following earnings growth of 5x YoY to PkR0.9bn in CY11. However, Eximp earnings are expected to disappoint in CY11, with NPAT expected to fall by 41%YoY to PkR1bn owing to i) relatively lower margins on phosphates and ii) higher losses from the rice business.

**4QCY11 result preview:** We expect ENGRO to post NPAT of PkR2.1bn (EPS: PkR5.27) in 4QCY11, which would represent a sequential fall of 6%QoQ. We attribute the sequential earnings decline to a 35%QoQ fall in Fertilizer subsidiary profitability where Fertilizer earnings were down on lower ENVEN production (gas curtailment). Eximp earnings are expected to improve by 21%QoQ to PkR385mn following higher phosphate sales (+44%QoQ to 140k tons), however losses from rice business are expected to clip overall gains. In this regard, export price of Pakistani Basmati fell sharply in 4QCY11, which is likely to lead to margin compression in 4QCY11.

### ENGRO CY11 Result Preview

(PkR mn)	CY11E	YoY	4QCY11F	QoQ
Fertilizers	4,588	23%	870	-35%
Foods	891	404%	483	153%
EPCL	(706)	-8%	(266)	9%
Powergen	1,667	52%	429	-13%
Eximp	1,017	-41%	385	21%
Vopak	1,114	0%	333	10%
Avanceon	(133)	-32%	(23)	-50%
Engro Corporation*	7,662	13%	2,072	-6%
EPS (PkR)	19.48		5.27	

Source: AKD Research, \*Profitability less Minority Int.

**Engro Fertilizer CY11 result review:** ENGRO Fertilizer NPAT was up by 23%YoY in CY11 to PkR4.6bn. The improvement in profitability was due to higher urea sales following the commissioning of ENVEN as well as superior margins (GMs up 7pps YoY to 53%) which boosted overall profitability.

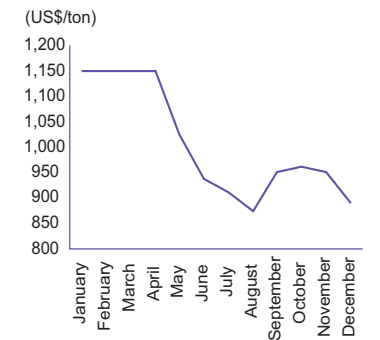
KATS Code	ENGRO
Bloomberg Code	ENGRO.PA
Price PkR	121.99
Market Cap (PkRmn)	47,977
Market Cap (US\$m)	533.67
Shares (mn)	393.28
3M High (PkR)	134.50
3M Low (PkR)	91.97
1Yr High (PkR)	205.78
1Yr Low (PkR)	91.97
3M Avg Turnover '000	2,788.13
1 Yr Avg Turnover '000	2,387.76

### ENGRO Price Performance

	1M	3M	6M	12M
Absolute (%)	28.5	-10.2	-1.3	-32.0
Rel. Index (%)	17.9	-12.3	-12.0	-31.3
Absolute (PkR)	27.1	-13.9	-1.6	-57.5

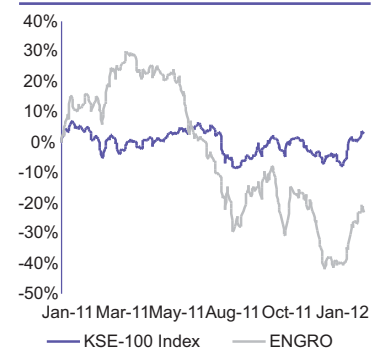
Source: AKD Research

### CY11 - Pak Basmati Export price



Source: FAO

### ENGRO vs. KSE-100 Performance



Source: KSE



**Outlook:** ENGRO remains one of our top picks given its superior growth potential and undemanding multiples. ENGRO Corp earnings for CY12F are expected to grow by 56%YoY (EPS PkR30.5), following robust earnings growth from the fertilizer subsidiary even if ENVEN runs at 40% capacity utilization. At current levels the scrip (CY12F PER: 4.0x) offers an attractive upside of 85% to our target price of PkR226/share.

[ayub.ansari@akdsecurities.net](mailto:ayub.ansari@akdsecurities.net)

I, Ayub Ansari, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is/or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. I further certify that I do not have any beneficial holding of the specific securities that I have recommendations on in this report.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	≤ -5% to > -20% downside potential
Sell	< -20% downside potential