Foundation Securities
A Fauji Foundation Group Company
REP-095

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Earning Review

ENGRO: 2QCY23 EPS clocked in at Rs10.3, DPS 2.0

Event

- Engro Corporation (ENGRO PA) reported profit of Rs5.9bn (EPS Rs10.3) in 2QCY23 against loss of Rs558mn (LPS Rs1.0) in 2QCY22. This cumulates into profitability of Rs10.6bn (EPS Rs18.4), up 43% YoY, in 1HFY23.
- The result is accompanied with a cash payout of Rs2.0/sh, taking 1HCY23 payout to Rs42.0/sh.
- The result is above our expectation given higher than expected profitability of power and Engro Enfrashare, in our view.

Impact

- We attribute increase in profitability to higher contribution from power, fertilizer and Share of Joint ventures.
- However, lower contribution from polymer and higher finance cost diluted the earning growth.
- EPTPL benefited from improved dollar indexation by 55.1% YoY and higher interest income on delayed payments.
- Company's fertilizer segment reported profit at Rs1.1bn (EPS Rs0.79) in 2QCY23, against loss of Rs98mn (LPS 0.07) in 2QCY22. Fertilizer profitability increased due to (1) higher urea prices, (2) lower tax expense and (3) controlled administrative expenses.
- EFERT finance cost increased by 21% YoY in 2QCY23 due to increase in interest rates despite lower working capital requirement. Fertilizer segment also booked reversal of Rs255mn on account of GIDC re-measurement gain booked earlier and loss allowance of Rs72mn on subsidy receivables from GoP.
- Polymer segment profitability decreased by 30% YoY in 2QCY23 on the back of (1) lower volumetric sales, (2) 51% YoY lower PVC-Ethylene margin (avg. margin of US$383/ton during 2QCY23), and (3) 2.1x YoY higher finance cost despite ~32.1% YoY depreciation of average Rs-US$ exchange rate.
- EPCL reported PVC sales at 49KT during 2QCY23 versus 59/52KT in 2QCY22/1QCY23. Pipes and fittings remained major application of PVC with 53% market share followed by Film & Sheet with 17% market share. Company sold 22KT of Caustic liquid and flakes during 2QCY23 compared to 16/14KT during 2QCY22/1QCY23.
- Share of income from JV clocked in at Rs1,729mn, against share of profit of Rs284mn in the same period last year due to increase in contribution from food business, mining and terminals in our view.
- 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 66% YoY given 554bps increase in 6M KIBOR amid high leverage of telecom, polymer 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.

Fig 1: 2QCY23 Financial Highlights

	2QCY23	2QCY22	YoY	QoQ	1HCY23	1HCY22	YoY
Revenue	105,150	89,122	18%	8%	202,482	177,455	**14%**
Cost of sales	69,496	62,166	12%	-3%	141,265	123,282	15%
Gross profit	**35,654**	**26,955**	**32%**	**39%**	**61,217**	**54,173**	**13%**
Selling & distribution expenses	1,948	1,537	27%	-7%	4,035	3,426	18%
Administration Expenses	2,874	3,059	-6%	-6%	5,934	4,729	25%
EBIT	**30,832**	**22,360**	**38%**	**51%**	**51,247**	**46,018**	**11%**
Other operating income	6,896	5,637	22%	1%	13,751	8,067	70%
Other operating expense	1,914	5,122	-63%	-21%	4,335	7,822	-45%
Finance cost	11,391	6,874	66%	3%	22,496	12,002	87%
Share of income from JV	1,729	284	509%	na	1,605	1,272	26%
Profit before taxation	**26,151**	**16,285**	**61%**	**92%**	**39,773**	**37,090**	**7%**
Taxation	13,474	14,370	-6%	179%	18,299	20,278	-10%
Profit after taxation	**12,678**	**1,915**	**562%**	**44%**	**21,474**	**16,813**	**28%**
Owner of the holding company	**5,927**	**(558)**	**na**	**28%**	**10,574**	**7,414**	**43%**
EPS	**10.3**	**(1.0)**			**18.4**	**12.9**	
DPS	**2.0**	**11.0**			**42.0**	**23.0**	

Source: PSX, Foundation Research, August 2023

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Recommendations definitions

If

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