

Engro Corporation (ENGRO)

Earnings revised up, 'BUY' maintained

Shankar Talreja^{AC}
shankar@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan



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Earnings revised upward on earlier than expected COD of power plant



- We revise up our earnings for Engro Corporation (ENGRO) by 20% for 2019 to Rs35/share (earlier Rs29/share) as Engro's 660MW Power Plant (EPTL) is expected to commence operations by Jun 2019 (earlier Jan 2020). While, early commencement of power plant (in Jan 2019) can't be ruled out as reportedly its power plant is connected to national grid and transmission line is also tested. In case if transmission of power starts earlier in Jan 2019, then our 2019 EPS would be Rs40/share.
- To note, market was having concerns over transmission network for timely dispatch of power generation to national grid. We believe that this concern has subsided now.
- **Key risks:** Key risks to our valuation/earnings includes, 1) poor crop season, 2) regulatory changes in energy projects, 3) fluctuations in petrochemical margins, 4) short supply of natural gas and 5) any unprecedented delay in commencement of power plant.

ENGRO: Key Numbers					
	2016A	2017A	2018E	2019F	2020F
EPS	132*	17	27	35	42
Earnings Growth	401%	-87%	55%	30%	20%
PE at Rs336.47	2.5	19.5	12.6	9.7	8.1
Dividend Yield	7%	6%	7%	7%	10%
ROE	41%	5%	8%	10%	11%
PBV	1.3	1.3	1.3	1.2	1.1

Source: Company Accounts, Topline Research

* Includes one-off gain from divestment of its subsidiary

Sum-Of-The-Parts (SOTP)

- We have used Sum of the parts (SOTP) valuation methodology to value Engro Corporation (ENGRO). At current market price, ENGRO offers discount of 22% along with dividend yield of 7%. We maintain our 'BUY' call on ENGRO.

Engro Corporation : SOTP Valuation

Businesses	Rs/Share	Basis of valuation
Engro Fertilizer (EFERT)	114	Market Price
Engro Foods (EFOODS)	53	Market Price
Engro PowerGen Thar (EPTL)	33	DCF
Engro Elengy (EETPL)	30	Price Multiple
Engro Polymer Chemical (EPCL)	25	Market Price
Engro Vopak (EVTL)	28	DCF
Engro PowerGen Qadirpur (EPQL)	14	Market Price
Sindh Engro Coal Mining (SECMC)	7	DCF
Net Cash	124	As of Mar 2018
SOTP Valuation	429	
ENGRO Market Price	336	
Market Price Discount	-22%	

Source: Company Accounts, Topline Research

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Market Weight	= Weight in KSE-100 Index
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