

Engro Corporation (ENGRO)

2017 Analyst Briefing Notes

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Key Takeaways

- ENGRO announced consolidated earnings of Rs2.5bn (EPS Rs4.8/share) in 4Q2017, down 96% YoY. The decline was primarily due to a one-off booked in 4Q2016. To recall, ENGRO recorded a one-time gain of Rs58.7bn last year on account of partial disposal of stake in Engro Foods (EFOODS) as well as on re-measurement of the remaining stake.
- Revenues during the outgoing quarter clocked-in at Rs42bn, where Engro Fertilizers (EFERT), Engro Polymer and Chemicals (EPCL) and Engro Powergen Qadirpur (EPQL) contributed Rs28.6bn, Rs7.3bn and Rs2.8bn, respectively. While EFERT registered muted YoY sales growth in 4Q2017, EPCL's sales grew by 18%. EPCL's revenues were up on the back of higher PVC sales due to improving international dynamics and strong demand off-take.
- In 2017, ENGRO's revenues were down 18% YoY. However, excluding EFOODS' share (last year it was a subsidiary), revenues were up 14%.
- Earnings were down 86% YoY to Rs9.4bn in 2017. Adjusting for EFOOD's one-off, ENGRO's consolidated earnings in 2017 grew by 14% while earnings on standalone basis were up 60% thanks to dividends received from EFOODS, Elengy and EPCL.
- Segment wise, Fertilizer, Polymer, Energy, Terminals and Foods witnessed revenue growth of +11%, +21%, +1%, +13% and -19%, respectively in 2017 while profitability growth during the same period was +60%, +211%, +17%, +17% and -95%, respectively.
- **Thar coal mining project update:** The project envisages a 3.8mn tons/annum mine under SECMC in first phase and the development of 2x330MW mine mouth power plants under Engro Powergen Thar. Overall progress is ahead of schedule and the completion is expected by Jun 2019.
- **Future plans:** The company is eyeing for various investment opportunities in energy (transmission projects) and petrochemicals (new expansion of PVC and allied chemicals in future) as well as looking for other lucrative avenues.
- The management continues to believe that the food business has a lot of potential but at the same time, it also involves stepping carefully ahead owing to strict regulatory framework. With this in mind, the aim is to realign the business strategy and come back stronger.
- Rice business is expected to breakeven in 2018.

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