

ENGRO Corporation (ENGRO)

2Q2018 EPS Rs3.62, up by 117% YoY; 1H2018 EPS Rs11.63 up by 61% YoY

Cash Dividend of Rs7/share

Below expectations

Shankar Talreja^{AC}

shankar@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan



www.jamapunji.pk

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One timer, non cash expense restricted 2Q earnings growth

ENGRO: Consolidated Financial highlights						
Rsmn	2Q2018	2Q2017	YoY	QoQ	1H2018	YoY
Sales	38,208	29,664	29%	14%	71,733	37%
Cost of Sales	27,941	21,779	28%	27%	49,908	33%
Gross Profit	10,267	7,885	30%	-11%	21,825	49%
Selling & Distribution Expenses	1,725	1,983	-13%	-6%	3,564	3%
Administrative Expenses	896	914	-2%	1%	1,780	8%
Other Income	2,332	3,225	-28%	-12%	4,972	-12%
Other Operating Expenses	1,662	467	256%	178%	2,260	199%
Finance Cost	1,221	1,264	-3%	0%	2,444	-5%
Share of Income from JV & associates	(918)	231	-497%	-321%	(502)	-174%
Profit Before Taxation	6,176	6,712	-8%	-39%	16,246	30%
Profit After Taxation	4,218	4,291	-2%	-38%	11,055	65%
Owners of the Holding Company	1,898	874	117%	-55%	6,091	61%
EPS	3.62	1.67			11.63	

Source: PSX Notice, Topline Research

- One timer and non cash prudent tax recognition in Engro Vopak Terminal (EVTL) capped Engro Corporation's (ENGRO) earnings growth to 117% YoY. Earnings were well below the street expectations of Rs7.4-7.7/share due to one timer expense recognition of nearly Rs2bn, partly recognized under '(loss)/income from joint ventures' head while remaining was booked under 'other operating expenses', as per our channel checks.
- ENGRO reported net sales of Rs38bn, up 29% YoY due to increase in revenue from Engro Fertilizer (EFERT), up 31% YoY and Engro Polymers and Chemicals (EPCL) up 35% YoY.

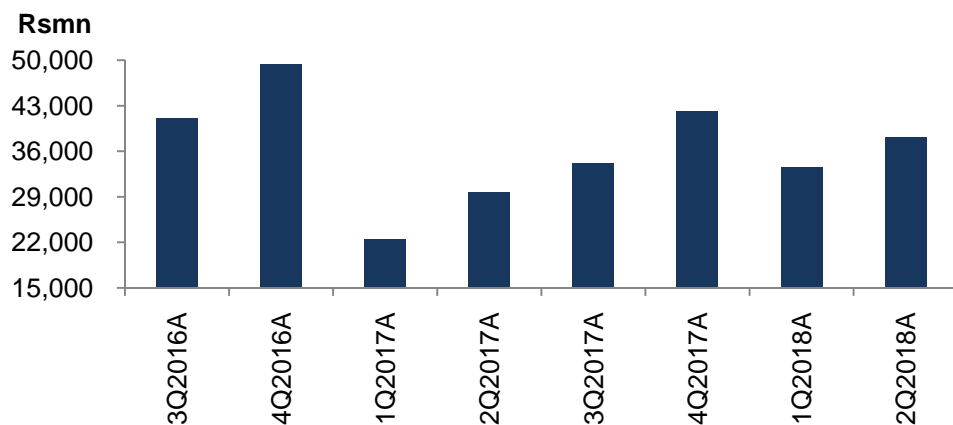
One timer, non cash expense restricted 2Q earnings growth

- Fertilizer business recorded growth in its sales revenue due to increase in urea and DAP prices by 10% and 20% YoY respectively. While polymer business showed robust growth in revenues due to increase in its PVC volumes.
- Selling and distribution expense went down by 13% YoY to Rs1.7bn due to lower handling cost of its fertilizer division. Similarly, admin cost fell by 2% YoY to Rs896mn.
- JV and associates posted loss of Rs918mn, vs. profit of Rs230mn in corresponding period of last year. Negative surprise in JV's (Engro Vopak) loss was due to recognition of tax expenses on prudent basis against change in company's tax status in 2010, that was challenged by the company in court (case is still pending in court). However the company has recognized its due portion of expense under two heads 'Share of (loss)/profit from associates' and 'JV and other operating expense'. Moreover, we can not rule out the possible reversion of this amount going forward if decision comes in favor of the company.
- We highlight 1) poor crop season, 2) scarcity of water for sowing season 3) volatility in Polymer margins and 4) change in regulatory structure in energy division as key risks for the holding company.

ENGRO: Key Numbers					
	2013A	2014A	2015A	2016A	2017A
EPS	14.9	13.4	26.3	19.9	18.0
Earnings Growth	486%	-10%	97%	-24%	-10%
PE at Rs344.4	23.1	25.7	13.1	17.3	19.2
Dividend Yield	0%	2%	5%	7%	6%
ROE	17%	14%	20%	8%	7%
PBV	3.8	3.5	2.6	1.3	1.4

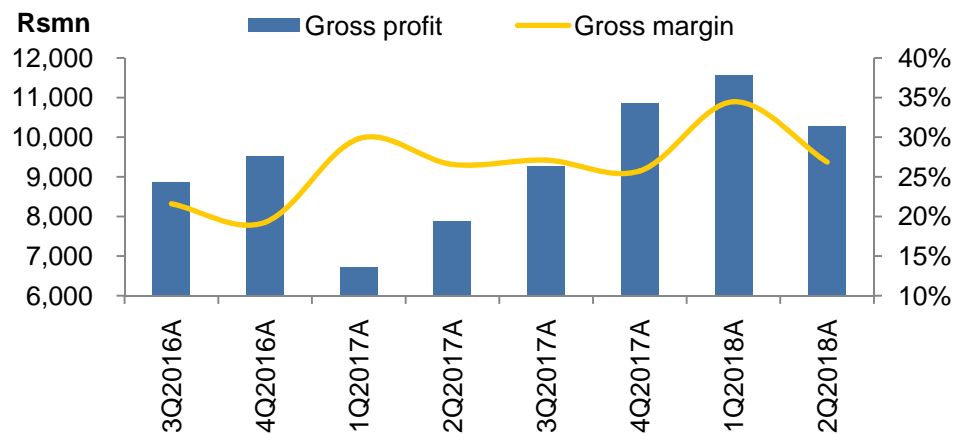
Source: Company Accounts, Topline Research

ENGRO: Quarterly Sales



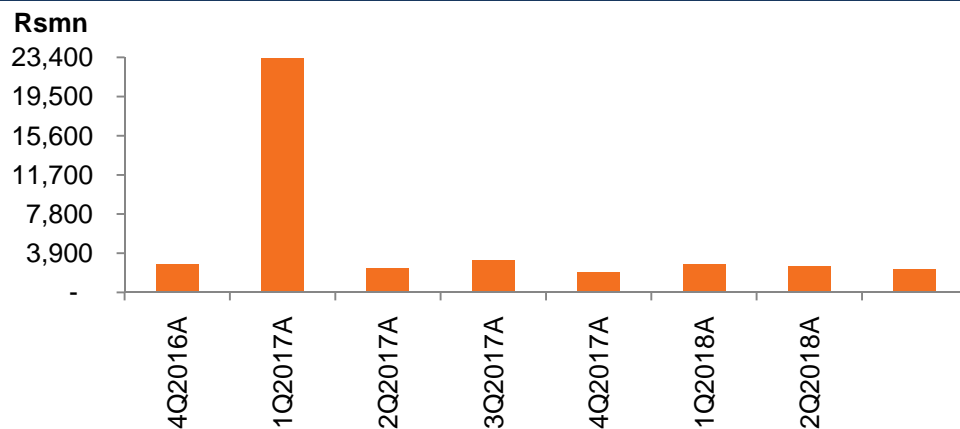
Source: Company Accounts, Topline Research

ENGRO: Quarterly Gross Profit & Gross Margins



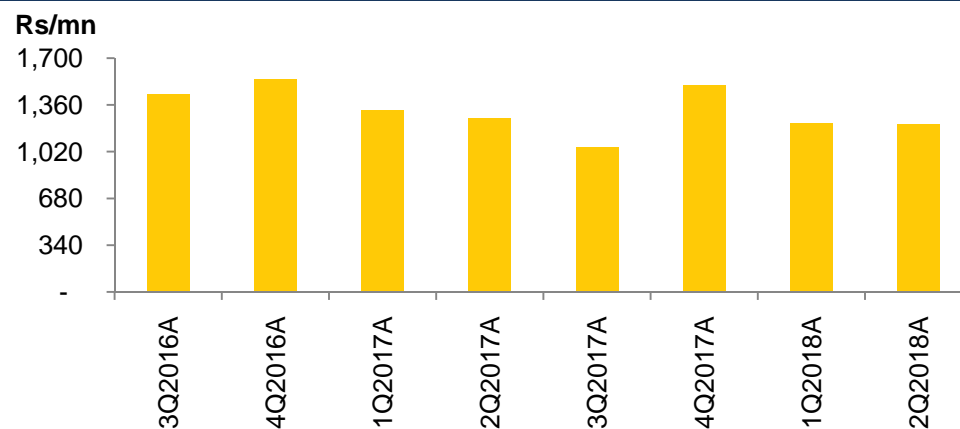
Source: Company Accounts, Topline Research

ENGRO: Quarterly Other Income



Source: Company Accounts, Topline Research

ENGRO: Finance Cost



Source: Company Accounts, Topline Research

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