

January 19, 2009

Pakistan Market

Engro: Full year results expectations

MORNING BRIEFING



KSE100 Index Closing 5511.93 ↓ (-266.65)

The board of directors of Engro Chemicals will meet on Jan 21, 2009 to announce its full year ended Dec 2008 results. Engro would be one of the first companies within our JS Universe to announce its Dec end period results. We expect the company to post a sharp earnings growth in 2008.

EPS of Rs22.7; final dividend of Rs2-3/share likely

We expect Engro to post earnings of Rs4.8bn (diluted EPS of Rs22.7) in 2008 versus earnings of Rs3.2bn (diluted EPS of Rs14.8) last year – depicting a handsome growth of 53%. The growth is expected on the back of higher urea prices during 2008. Moreover, higher dividends from subsidiaries particularly Engro Eximp is also expected to boost earnings of the company.

We expect the company to post urea sales of Rs12.2bn as against sales of Rs8.5bn recorded in 2007, a growth of 44%. During 9-months of 2007, the company posted earnings of Rs3.4bn (EPS of Rs16.4) which was 111% higher when compared to 9-months of 2007, declaring interim dividend of Rs4/share. With its full year results, the company is expected to announce a final cash dividend of Rs2-3/share thus taking the full year dividend to Rs6-7/share.

Other income will continue to boost bottom-line

Engro's bottom-line will continue to be boosted from other income from its subsidiaries & joint venture. In 2007, the company received Rs1.6bn dividend income from Engro Eximp, Asahi, and Vopak while in 2008 we expect the dividend income to rise to Rs2.0bn, mainly led by higher dividends from Engro Eximp. In 9-months 2008, other income stood at Rs1.6bn as compared to Rs651mn in 9-months 2007.

Rights issue: Now or later

Due to the current equity market downturn, we expect Engro may defer anticipated Rights issue for raising equity for its expansion plans. The company had raised Rs3.4bn in 1H2008 through a 10% Rights issue, and an additional

amount of around Rs4-5bn was expected to be raised through a further Rights issue. According to the Sep 30, 2008 financials the company had a long term debt to equity ratio of 51:49, which is lower than company's target capital structure of around 60:40. The company may announce a right issue now or may also defer it due to current bearish spell in the local bourses. The pricing of right issue will be the key for the shareholders.

Outlook: 'Buy' maintained

We maintain our long term positive outlook with a 'Buy' stance for Engro and believe that the company would benefit going forward from its new urea plant expansions and growth of its subsidiaries. Engro Foods, one of its most aggressive diversification is performing well above expectations, with its flagship milk product Olpers, now the second largest player in the UHT milk market in Pakistan.

The scrip is currently trading at 2008E and 2009F PE of 5.4x and 5.3x, with a dividend yield of 5.8% and 7.4% respectively.

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Also in focus**Government borrowing from SBP falls to Rs289bn**

According to the latest broad money details released by State Bank (SBP), net government borrowings from SBP during FY09 until Jan 3, 2009 fell to Rs289bn from Rs309bn a week earlier. As a result, total stock of government borrowing from SBP, a key performance criteria under IMF, was recorded at Rs1,323bn as against an IMF's Dec end 2008 ceiling of Rs1,274bn. Finance advisor Mr. Shaukat Tarin, according to news reports had stated that government had met all IMF targets including those related to SBP borrowing. Hence, it seems that government had reduced its borrowing to Dec end 2008 target with fresh borrowing being made in the first 3 days of Jan 2009.

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