

January 20, 2010
Pakistan Market

MORNING BRIEFING



Engro: 2009 EPS expected at Rs13.3/ 'Buy'

KSE100 Index: Closing 9954.41 ↑ (+58.95)

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The board of directors of Engro Chemicals (now Engro Corporation) will meet on January 22, 2010 to announce its full year 2009 results. We expect the company to post profits of Rs4.0bn (EPS of Rs13.3) versus earnings of Rs4.2bn (EPS of Rs14.2) in 2008, a decline of 7%YoY. Moreover, we believe the company will announce a final cash dividend of Rs2 per share, taking the cumulative dividend for the year to Rs6 per share.

EPS of Rs13.3; final dividend of Rs2/share likely

We expect the company to post urea sales of Rs13.9bn versus revenues of Rs14.7bn recorded in 2008, a decline of 5%, while DAP revenues are expected to grow by 97% to Rs13.9bn in 2009; hence, a resulting growth of 33% in total revenues. However, lower quantum of dividend income expectation from Engro Eximp in 2009 will curb the bottom line. We estimate earnings of Rs4.0bn (EPS of Rs13.3) in 2009 versus profits of Rs4.2bn (EPS of Rs14.2) in 2008, a decline of 7%YoY.

In the fourth quarter alone, amid strong DAP offtake, we expect total revenues to reach Rs10bn, which will help the company post earnings of Rs1.4bn (Rs4.6 per share). Engro has already declared earnings of Rs8.7 per share in 9M2009, declaring a dividend of Rs4 per share. We further expect a final dividend payout of Rs2 per share, which will take the full year dividend to Rs6 per share.

Other income to complement higher revenues

Although other income is projected to fall by 32%YoY, we still expect the company to recognize Rs1.9bn in dividend income during 2009. With record DAP imports during 2009, we project a dividend income of Rs1.3bn from Engro Eximp (the subsidiary which handles DAP imports for Engro). Additionally, Engro Vopak (JV with Royal Vopak) is projected to report earnings of Rs880mn during the year and with almost 90% payout ratio we reckon Engro will receive Rs396mn in dividend income.

Outlook: 'Buy' maintained

Given the recent hike in international DAP prices, Engro has increased DAP prices by Rs290 per bag to Rs2,200 per bag. According to our estimates, this change will have an incremental impact of Rs2.1bn (Rs4.5 per share – net of tax impact) on the revenues. Nonetheless, DAP import costs are likely to offset the incremental revenue impact. Therefore, there would be a relatively diluted impact on the bottom line of Rs1.0-1.5 per share in 2010.

Moreover, with urea demand expected to grow at 3-4% annually and the additional 1.3mn tons of urea plant coming online in July 2010, fertilizer earnings are expected to receive a major boost going forward. Further, earnings from 220MW power plant and positive cash flows from Engro Foods beyond 2010 are other key triggers for the company which allows us to maintain our long term positive outlook on Engro.

The scrip is trading at a post expansion 2011F and 2012F PE of 8.8x and 7.2x, respectively. We maintain our 'Buy' stance on the scrip at current levels.

Table: Engro 2009 earnings estimates

(Rs mn)	2008A	2009E	Δ%
Sales	23,317	30,938	33%
Cost of good sold	17,121	23,812	39%
Gross profit	6,197	7,126	15%
<i>Gross margins</i>	27%	23%	
Operating Expenses	1,658	1,946	17%
Operating profit	4,539	5,180	14%
Other Income	2,754	1,863	-32%
Other charges	580	485	-16%
EBIT	6,714	6,558	-2%
Interest Expenses	1,509	1,181	-22%
EBT	5,205	5,377	3%
Taxes	964	1,426	48%
PAT	4,240	3,951	-7%
EPS	14.2	13.3	-7%

Source: JS Research & Company accounts

Also in focus

1HFY10 deficit at US\$1.78bn, down 78%YoY

Current account deficit for the month of December came in at US\$391mn, taking the cumulative total to US\$1.76bn in the first half of the fiscal year (Jul-Dec). Although, monthly data reflects a rise of 38%MoM, the total for the six month period is down 78%YoY. Lower trade deficit coupled with higher remittances have led to this sharp decline in the C/A deficit. We expect current account deficit to rise in the coming months on account of higher commodity prices and a seasonal adjustment in the remittance data. Our full year target for current account deficit is US\$6bn.

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