

July 27, 2010

## Pakistan Market

## Engro &amp; HBL 1H2010 result previews

MORNING BRIEFING



KSE100 Index: Closing 10297.68 ↑ (+1.64)

Engro Corporation (ENGRO) and Habib Bank Limited (HBL) are scheduled to announce their 1H2010 results in their respective board meetings on July 28, 2010. Engro is likely to post an impressive EPS of Rs10.2 in 1H2010, up 217%YoY, while we expect HBL to announce an EPS of Rs7, up 7%YoY. At current stock prices, we maintain our 'Buy' call on Engro while we recommend 'Hold' on HBL.

### Engro 1H2010 EPS likely at Rs10.2

Engro Corporation is set to announce its 1H2010 result on July 28, 2010. We expect the company to post consolidated earnings of Rs3.3bn (EPS: Rs10.2) in 1H2010 compared to profits of Rs1.1bn (EPS: Rs3.2) in 1H2009, up 217%YoY. Growth has primarily been driven by fertilizer and chemical storage (Vopak) businesses, whereas its food and chemical (Polymer) ventures have continued to run into losses. We expect the company to announce a first interim dividend of Rs2 per share.

While Engro Fertilizer Limited (EFL) has already announced its result, posting earnings of Rs2bn in 1H2010, we expect Engro Vopak to book profits of Rs551mn (share of profit from JV: Rs276mn) in 1H2010, up 41%YoY, mainly due to the absence of new capacities during 1Q2009. With reference to the fertilizer segment, higher urea prices propelled growth in the company's bottom line.

#### Result preview - Engro Corporation

(Rs mn)	1H2010E	1H2009A	%Δ
Fertilizer + Eximp	3,314	1,071	209%
Polymer	(449)	13	NM
Food	(80)	(292)	NM
Energy	172	48	258%
Other	(109)	(90)	NM
Share from JV (Vopak)	267	194	38%

Source: JS Research

Interestingly, despite gas curtailment during 2Q2010, the company managed to sell 492k tons of urea (up 17%YoY),

registering revenues of Rs9.4bn in the said period. Resultantly, the company's gross margins improved to 49% in 2Q2010 compared to 46% in 1Q2010. Another surprise witnessed was a huge jump in the other income to Rs302mn in 2Q2010 which further supported the growth in the bottom line. Similarly, Engro Eximp (the trading arm) is expected to report a PAT of Rs1.1bn in 1H2010 due to a turnaround in volumes during 1Q2010.

On the flip side, higher advertisement and administrative expenses on the ice cream line are expected to keep Engro Foods in losses despite the dairy segment turning to profits. We estimate a loss of Rs80mn in 1H2010 for Engro Foods compared to a loss of Rs292mn in 1H2009. Moreover, delays in the Commercial Operations Date (COD) of the VCM plant at Engro Polymer and Chemicals Limited (EPCL) kept EPCL earnings in the red. As a result, EPCL reported consolidated loss of Rs295mn compared to a profit of Rs13mn in the corresponding period last year.

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### HBL: 1H2010 EPS likely at Rs7

The board of directors of Habib Bank Limited is scheduled to announce its 1H2010 results tomorrow. We expect the bank to post net profit of Rs7bn (EPS: Rs7.0) versus profit of Rs6.6bn (EPS: Rs6.5), growth of 7%YoY. The NII (Net Interest Income) will remain flat due to weak advances growth and a slight pickup in deposit costs (up 9%YoY), resulting in a mere 1% growth in NII for 1H2010, in our view. On the contrary, lower expected provisions for NPL (down 22%YoY) and higher fee income (up 12%YoY) are likely to more than offset the impact of flat NII on the bank's bottom line. We don't expect any payout along with the result. Currently, the stock is trading at 2010E PBV of 1.2x, hence we maintain our 'Hold' stance on HBL.

#### Result preview -HBL

(Rs mn)	1H2010E	1H2009A	Δ%
Mark-up interest earned	38,252	36,705	4%
Mark-up interest paid	(17,257)	(15,864)	9%
Net interest income	20,995	20,841	1%
Provisions/write offs/reversal	(3,276)	(4,174)	-22%
	17,719	16,667	6%
Non interest income	5,256	4,695	12%
Operating expenditures	(11,779)	(10,943)	8%
Profit before tax	11,196	10,420	7%
Taxation	(4,159)	(3,866)	8%
Profit After Taxation	7,037	6,554	7%
Earning per share (EPS)	7.02	6.54	7%

Source: JS Research

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### Also in focus

#### Additional oil found in Rajian

As per a press release, OGDC has found additional oil and gas in the fifth well drilled at the Rajian Oilfield. With these incremental flows, oil production from Rajian-5 has jumped to 2,400 bpd from 1,200bpd. Based on these numbers, we have estimated an annualized earnings impact of Rs0.30 per share on OGDC (stake 100%). Production flows from the well are expected to commence in the next 1-2 months. At present, we maintain 'Hold' on OGDC.

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