

Engro Corporation Limited

 KATS: ENGRO
 Bloomberg: ENGRO PA

 Price: PKR 328
 Fair Value: PKR 384

OUTPERFORM

Analyst Briefing: Gross Margins Decline to 17% in 2QCY24

23 August 2024

- 2QCY24 earnings arrive at PKR 4.18/sh.** ENGRO reported an earning of PKR 2,243 BN (down 44/74% Q/Q / Y/Y) for the quarter ended in Jun-24. On a gross level, the company reported a 42% Q/Q decline, primarily owing to 1) removal of thermal assets from continued operations, 2) loss incurred by EPCL in Jun-24, and 3) lower gross margins of 18% realized by EFERT in 2QCY24 due to turnaround of EnVen plant.
- Dividend of PKR 8.00/sh.** ENGRO announced a dividend of PKR 8.00/sh for the quarter ended Jun-24, taking the total dividend for 1HCY24 to PKR 19.00/sh.
- Update on thermal asset diversification.** The approvals for thermal asset diversification are currently in progress, with management expecting the transaction to be completed within the next 6 to 9 months. Any dividends received by ENGRO from these assets will be deducted from the final transaction amount of PKR 34.7 BN.
- Engro EnfraShare.** In 1HCY24, Engro EnfraShare added 111 towers, bringing the total to 4,063 and increasing its market share to 52% in the ITC market. However, as a relatively new company, it will take time to achieve improved profitability. The company plans to increase the number of towers to 5,000 in the future.
- Discontinued operations.** In the Jun-24 quarter, in accordance with IFRS-5, ENGRO began reporting the thermal asset profits under profit from discontinued operations, leading to a 42% Q/Q decline in gross profit.

Consol.	CY23	CY24E	CY25E	CY26E
EPS	38.6	35.3	50.7	50.0
DPS	48.0	28.3	29.5	32.6
P/E (x)	6.8	11.6	11.1	10.1
P/B (x)	0.8	0.7	0.7	0.7
D/Y (%)	14.6%	8.6%	9.0%	9.9%

Source: Company Accounts, Optimus Research

Areeba Nasir

areeba.nasir@optimus.pk

+9221 3529 6888 x 2305

REN: REP-107



- **Gas price disparity.** According to management, discussions with the government regarding the gas price disparity between Mari and the SNGPL/SSGCL networks are ongoing; however, there has been no material update on the issue.
- **Friesland Campina Engro.** The company saw a 17% Y/Y increase in revenue. However, due to higher interest costs, net profitability decreased to PKR 1.3 BN in 1HCY24, down 7% Y/Y. The imposition of sales tax on packaged milk will further negatively impact FPECL.
- **Future Outlook.** We maintain an outperform stance on the company, based on its fair value of PKR 384/sh. As per the management, company is working on cost optimization methods and other investment projects which for now are too immature to disclose.

Earnings Snapshot

PKR MN (Consolidated)	Jun-24E	Jun-24	Mar-24	Jun-23	Q/Q	Y/Y	1HCY24	1HCY23	Y/Y
Net Sales	71,590	74,589	104,300	75,088	-28%	-1%	178,889	147,161	22%
Cost of Sales	(60,386)	(61,581)	(82,026)	(53,900)	-25%	14%	(143,607)	(107,985)	33%
Gross profit	11,204	13,008	22,274	21,188	-42%	-39%	35,282	39,176	-10%
Distribution Expenses	(5,227)	(5,268)	(7,100)	(4,706)	-26%	12%	(12,367)	(9,439)	31%
Operating profit	5,977	7,741	15,174	16,482	-49%	-53%	47,649	48,616	-2%
Other charges	(1,270)	(1,147)	(870)	(1,830)	32%	-37%	(2,017)	(4,210)	-52%
Finance Cost	(5,273)	(5,480)	(4,047)	(3,761)	35%	46%	(9,527)	(8,117)	17%
Other Income	3,375	3,722	3,483	2,265	7%	64%	7,205	6,139	17%
Share of JV income	1,062	637	631	453	1%	41%	1,268	1,071	18%
Profit Before Tax	3,870	5,473	14,371	13,608	-62%	-60%	44,578	43,498	2%
Taxation	(2,106)	(3,250)	(7,009)	(12,128)	-54%	-73%	(10,259)	(17,010)	-40%
Profit From Continued Operations	1,763	2,223	7,361	4,146	-70%	-46%	34,319	26,489	30%
Profit from Discontinued Operations	-	2,854	-	11,550	nm	-75%	2,854	14,216	-80%
Minority Interest	(1,072)	(2,834)	(3,343)	(6,906)	-15%	-59%	(6,177)	(11,055)	-44%
Attributable to ENGRO	692	2,243	4,018	8,790	-44%	-74%	30,995	29,650	5%
EPS	1.29	4.18	7.49	11.40			11.67	19.58	
DPS	4.89	8.00	11.00	2.00			19.00	42.00	
Gross Margins	16%	17%	21%	28%			20%	27%	
Net Margins	2%	3%	7%	6%			19%	18%	
Effective tax rate	54%	59%	49%	89%			23%	39%	

Source: Company Accounts, Optimus Research

Analyst Certification

The research analyst for this report, Areeba Nasir, certifies that: (1) all of the views expressed in this report accurately reflect her personal views about the subject; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Disclaimer

This report has been prepared by Optimus Capital Management (Pvt.) Ltd. [Optimus] and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation or any offer to buy. While reasonable care has been taken to ensure that the information contained in this report is not untrue or misleading at the time of its publication, Optimus makes no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Optimus and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. Optimus as a firm may have business relationships, including investment banking relationships with the companies referred to in this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and Optimus accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. At the same time, it should be noted that investments in capital markets are also subject to market risks. This report may not be reproduced, distributed or published by any recipient for any purpose.