

morning shout

Pakistan Daily Notes

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Engro: Strong 1H10 earnings growth, Buy

- Engro Corp announced solid 2Q10 earnings of PRs4.60/sh, 307% higher YoY, driving up 1H10 earnings to PRs10.37/sh (+222% YoY).
- Exceptional 1H10 earnings growth was broad-based, led by a combination of volume growth, margin expansion & start-up of new businesses.
- With new projects already starting to pay-off, we maintain our positive bias on Engro where we eye 28% EBITDA & 25% EPS CAGR over 2009-14E. We believe continued earnings accretion from new ventures over the next 12-mths will provide the trigger for stock price appreciation. Maintain Buy with PRs255/sh PO.
- 1H10 earnings growth was led by Fertilizer (+171% YoY) on volume & margin gains. Eximp also put up a strong show via 1Q10 timing gains while Power was a game-changer with 1st quarter of profits. Foods profits continued to lag revenue growth due to advertizing expenses while Polymer was the key disappointment.

Robust 1H10 performance – broad based with few laggards

Robust set of results announced by Engro Corp where 2Q10 earnings of PRs4.60/sh, while expectedly lower QoQ, came in 307% higher YoY driving up 1H10 earnings to PRs10.37/sh (+222% YoY). Engro also announced a 1st interim cash dividend of PRs2.00/sh. Led by (1) strong urea performance (17% volume growth in 1H10 and 320bp QoQ uptick in margin in 2Q10 as urea price hike more-than-offset gas curtailment impact); (2) gains on DAP trading; (3) start-up of Engro Energy & (4) one-time gain on sale of land, 1H10 earnings came in above expected and make up just over 60% of 2010E estimate (PRs16.97/sh). Continued strong urea margins are a key upside risk but we continue to factor in softer 4Q numbers post 1.30mn ton urea expansion (financial charges spike).

Drivers of triple-digit YoY earnings growth

Exceptional 1H10 earnings growth was broad-based, led by a combination of volume growth, margin expansion & start-up of new businesses. With new projects already starting to pay-off (Power generated PRs376mn 1H10 earnings & Foods moved to no. 1 slot in UHT milk market share), we maintain our positive bias on Engro where we eye 28% EBITDA & 25% EPS CAGR over 2009-14E. We believe continued earnings accretion from new ventures over the next 12-mths will provide the trigger for stock price appreciation. Engro remains our preferred play on rural consumption growth and supply shortages in Pakistan.

Segment wise performance & guidance

In terms of business segment-wise performance and leaders in 1H10, 100% owned Engro Fertilizer Ltd (EFL) led from the front with 171% YoY earnings growth. Eximp also put up a strong show via timing gains on DAP imports (largely realized in 1Q) while Power was somewhat of a game-changer with 1st quarter of operation yielding PRs376mn profit. Vopak posted 33% YoY earnings growth while Foods profits continued to lag revenue growth due to advertizing expenses. Avanceon remained unexciting (and to a large extent ignorable from an earnings point of view) while Polymer was the key disappointment due to delays in completion of backwards integration (1H10 loss of PRs449mn).

Gas curtailment concerns to fade; expansion the trigger

While the market has remained wary of gas curtailment to the fertilizer sector, we believe 2Q10 earnings should put these concerns to rest where lower than earlier expected gas outages and reactive urea price hike more than offset production/ efficiency loss. The same is reflected in Engro's higher fertilizer margins, which rose 320bp QoQ in 2Q10. While gas load-shedding should continue in 3Q10, earnings will remain sheltered in our view. Key now is timely commencement of the urea expansion project (we factor the same online by 4Q10).

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Engro Chemical

Current Price PRs188.98
Price Objective PRs255.00

KATS ENGRO
Bloomberg ENGRO PA
Reuters EGCH.KA

Shares Outstanding
327.73mn

Market Cap
PRs 61,934m (US\$724m)

3m average daily volume
1,744,238 shares

12-month High/Low
212.84 / 118.44

Stock Performance

	1M	3M	12M
Absolute%	6.3	-5.5	58.4
Rel Index%	-1.3	-5.3	19.9
Abs. (PRs)	11.2	-11.0	69.7

Engro Chemicals Valuation Snapshot

(Consolidated)	2009A	2010F	2011F
Revenues (PRsmn)	58,152	79,206	97,074
% Change	42%	36%	23%
PAT (PRsmn)	3,807	5,561	7,201
% Change	-8%	46%	29%
Gross Margins (%)	26%	28%	36%
EPS (PRs)	11.62	16.97	21.97
PER (x)	16.27	11.14	8.60
P/BV (x)	2.11	1.89	1.62
EV/EBITDA (x)	16.09	10.51	5.62
Net Debt/Equity (%)	282%	299%	230%

Source: Company Accounts, KASB Estimates

Morning News

► **FFC 1H10 earnings up 12% YoY** (Analyst comment)
 Solid set of results from FFC (2Q EPS rose 35% YoY taking earnings for 1H10 up 12% YoY) beat our expectation but slightly shy of market rumors. No word on possible acquisition plans and payout remained robust at 100% (there was speculation that we may see a bonus this quarter in-place of 100% cash payout if the company is leaning towards Agritech acquisition). Overall, earnings growth was led by higher urea prices and resultant expansion in production margins where 2Q10 gross margin expanded by ~44bp YoY (note 1H margins are nominally lower YoY because of a depressed 1Q). Above expected earnings were led by lower-than-expected efficiency loss on urea due to lower gas curtailment. In terms of urea volumes the same were flat YoY in 1H10, though 2Q urea sales were down 3% YoY. FFC also made its 1st foray into DAP this year via ~31k tons DAP import in Jun-10. Of the same 2k tons were sold while the company carries the rest as inventory. QoQ earnings dip was largely expected given seasonal decline in urea volumes and also QoQ lower FFBL dividend.

PRsmn	1Q10	2Q10	QoQ	1H10	1H09	YoY
Sales Revenue	9,499	10,448	10%	19,947	16,897	18%
Gross Profit	4,044	4,789	18%	8,834	7,611	16%
Operating Profit	3,142	3,823	22%	6,964	6,107	14%
EBIT	4,085	3,774	-8%	7,859	7,052	11%
EBT	3,821	3,544	-7%	7,365	6,532	13%
Net Profit	2,729	2,372	-13%	5,101	4,548	12%
EPS (PRs)	4.02	3.50	-13%	7.52	6.70	12%
DPS (PRs)	4.00	3.50	-13%	7.50	6.51	15%
Key Operating Ratios						
Gross Margin	43%	46%	3%	44%	45%	-1%
Operating Margin	33%	37%	4%	35%	36%	-1%
Fertilizer earnings/sh	2.16	3.11	44%	5.27	4.40	20%
Other Income/sh	1.86	0.39	-79%	2.25	2.31	-3%
Sales Volume ('000 tons)						
Urea Sales	624	608	-3%	1,232	1,238	0%
DAP Sales	0	2	NM	2	0	NM

Source: Company Accounts, KASB Estimates

KSE-100 Intra-day Movement



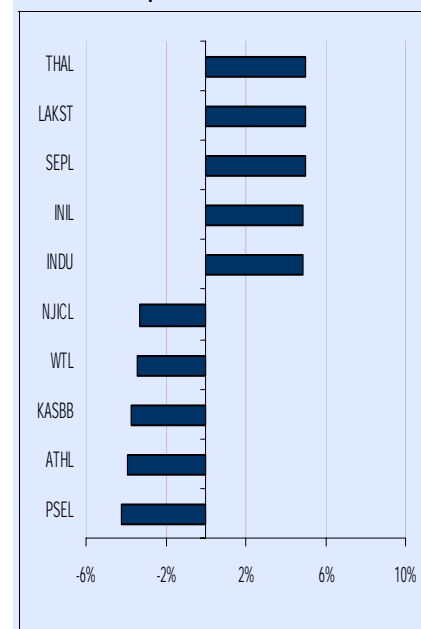
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	10,417.37	-0.22%	32.24
KSE100	10,438.66	0.02%	35.88
KSE All Share	7,291.08	0.00%	37.61
NBP	72.19	0.73%	5.86
POL	234.67	-0.50%	3.47
PPL	203.47	0.71%	2.99
HUBC	36.71	1.38%	2.93
DGKC	28.30	1.32%	1.98

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,536.20	-5.90	-0.13
Shanghai Composite	2,648.12	14.46	0.55
Hang Seng	21,093.82	2.64	0.01
BSE 30	17,992.00	34.63	0.19
Jakarta Composite	3,096.82	39.34	1.29
KLSE Composite	1,358.41	3.22	0.24
Nikkei 225	9,696.02	-57.25	-0.59
NZSE 50	3,033.02	10.84	0.36
Straits Times	2,997.65	12.27	0.41
Seoul Composite	2,997.65	1,224.18	69.03
Taiwan Weighted	7,798.99	14.18	0.18
KSE-100 Index	10,438.66	2.37	0.02

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,506.57	26.55	1.07
BEL-20	2,537.90	-7.18	-0.28
CAC 40	3,651.91	-18.45	-0.50
DAX	6,134.70	-44.24	-0.72
AEX General	332.13	-2.90	-0.87
Swiss Market	6,220.65	-56.84	-0.91
FTSE 100	5,313.95	-5.73	-0.11
American Markets			
Dow Jones Ind. Average	10,467.16	-30.72	-0.29
NASDAQ Composite	2,251.69	-12.87	-0.57
NASDAQ -100	1,860.30	-12.32	-0.66
S&P 500 Index, RTH	1,101.53	-4.60	-0.42

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	3.8	10.4	40.1	316.5	221.1%	07-29
India	140.3	258.6	2,601.4	9,301.3	31.6%	07-28
Indonesia	128.9	217.6	543.3	1,399.7	104.5%	07-29
Japan	Na	-338.4	105.6	8,678.1	128.3%	07-23
Philippines	1.2	14.7	-5.7	373.1	40.3%	07-29
South Korea	146.3	901.7	2,386.4	7,522.3	-36.3%	07-29
Taiwan	175.0	686.6	2,150.5	2,038.1	-73.0%	07-29
Thailand	12.6	116.0	179.4	-359.5	-142.3%	07-29
Vietnam	1.0	-0.5	25.0	296.0	255.9%	07-29

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.44	12.41	0.03
12-M T-Bill (Average)	12.42	12.41	0.01
10- year PIB (Average)	12.95	12.98	-0.03
PkR/ US\$	85.66	85.63	0.03

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	78.36	1.37	1.78
Gold	1,168.25	2.27	0.19
CRB Index (July 27 th)	430.2	0.37	0.09

Source: Bloomberg

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