

Engro Fertilizer plant likely to get the nod of gas | there is light at the end of the tunnel

Synopsis...

As per the newspaper reports, there is a realization among government functionaries to open the gas of Engro Fertilizer (the biggest Engro Corp., company). Petroleum ministry is now wishes to help the company after its long ordeal of closure which has rendered the company to transfer many of the plant employees to other component companies. Even though, the Economic Coordination Committee (ECC) has approved the case of Engro in October 2012 but still there is a delay in implementing the case of provision of gas since some of the new fields have been identified in order to substitute shortfall from the designated supplies from Qadirpur. Hence there may be partial supplies to Engro for at least 4months.

We feel it's like 'came late but came stronger' since some of the new fields identified to substitute Qadirpur is a good omen for the long term perspective.

As per newspaper reports, the fields identified include MOL operated Makori of Tal Block along with Mari, Reti Maru, KPD & Bahu. However, we see many formalities which would be overcome before Engro would obtain gas from these fields.

Modalities of gas supplies to take place in 4months; hence delay to persist

At present, the shortfall in urea is met through imported fertilizer which is expensive in international market and thus local fertilizer plants face ignominy of closure given lack of gas supplies from the designated low caloric value supplies from Qadirpur (Engro won the auction of 100mmcf supplies from Qadirpur way back in 2006) the promise never fulfilled to the fullest once new plant commenced production. As per our discussion with many Engro people, the plant location is close to Mari and Reti Maru and there is a chance of starting gas supplies from these areas (within 4months claimed by newspaper scribe). It's an old news that Engro itself can lay down the pipeline to new plant (in order to receive gas from Mari) since old plant is already recipient of dedicated gas from Mari (just as Fauji Fertilizer and Fatima Fertilizer).

Moreover, those supplies wouldn't be the fullest and infact would be partial i.e. mere in the vicinity of 11mmcf – 22mmcf in the interim period. Engro would wish to get gas from Mari since it would be at lower price i.e. \$3.3/mmbtu.

ENGRO closing	Rs93.14/sh
High	Rs94.36
Low	Rs93.05
Chg	-0.79
52 week hi	Rs151.90/sh
52 week lo	Rs87.37/sh
Beta	1.46
Total # of sh.	511mn
Free float	147mn
EPS(9MCY13)	-0.87/sh

Urea off-take to increase in 1QCY13

Engro shall benefit from urea off-take which would increase since many of inventories would be released (wherein we expect some decrease in prices in local market). Some of the nutrient based fertilizers would perform better such as DAP and also NP but Engro would continue to be a urea play since company faces its supply shortfall which also invariably hinders its imported DAP sales (marketed via Engro Eximp)

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Valuation – Engro earnings would be positive in 4Q & 1Q – signal positive outlook

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