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REP 019

EPCL sale to augment ENGROH's value

AKD Securities Limited

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ENGROH has entered into a Share Purchase Agreement (SPA) with Lotte Chemical Pakistan Limited (LOTCHEM) for the sale and transfer of its entire shareholding in Engro Polymer & Chemicals Limited (EPCL). The transaction involves the sale of approximately 56.19% (510.7mn shares) of EPCL's issued and paid-up ordinary share capital at a total transaction value of PkR19.7bn (PkR38.6/sh).

The aforesaid transaction is positive for ENGROH, as the SPA value is at a significant premium to our estimated fair value of PkR28/sh, resulting in positive valuation impact of PkR7.5/sh and taking our Dec'26 target price to PkR358/sh from PkR351/sh previously. In addition, we do not expect any material change on ENGROH earnings, as incremental earnings on transaction cash would more than offset EPCL's earnings contribution.

For EPCL & LOTCHEM, the acquisition offers potential operational synergies, particularly through the utilization of LOTCHEM's existing grid infrastructure for EPCL. Notably, conversion to Grid from current gas-based captive generation would result in annual after-tax savings of PkR4.4bn (PkR3.7/sh for EPCL), which we had already incorporated in our base case from Jun'27. However, leveraging LOTCHEM's existing grid infrastructure would not only eliminate the initial CAPEX requirement for grid conversion but also increase annual after-tax saving to PkR7.0bn on incremental package rate of PkR23.0/kWh.

Investment Perspective: We maintain our 'BUY' stance on ENGROH with new Dec'26 TP of PkR358/sh. Our positive outlook is underpinned by i) turnaround of telecom segment, ii) stable earnings from energy portfolio, iii) recovery in fertilizer offtakes supporting EFERT's profitability, iv) portfolio readjustment towards more value-enhancing segments.

264.9	1,204.2
Price (PkR/sh)	Shares (mn)
318,952.9	1,149.3
Market Capitalization (PkRmn)	Market Capitalization (USDmn)
2.463	685.9
3M Avg Turnover (mn)	3M Avg DT Value(PkRmn)

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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