Inv. Banks/ Inv. Cos./ Securities Cos.: Engro Holdings Limited Corporate Briefing Takeaways

ARIF HABIB LIMITED

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Brief Takeaways

- ENGROH's senior management held an analyst briefing session today, offering insights into the company's strategy across its key business segments.

Towers Business

- The company highlighted that the Deodar acquisition has now integrated taking ENGROH's total tower portfolio to ~15,000 towers. Management reiterated a strong structural thesis on digital infrastructure ownership, driven by rising data demand and Pakistan's low base of locally owned tower infrastructure.
- The Connectivity segment delivered 1QCY26 revenue of ~PKR 19bn and PAT of ~PKR 2.1bn on a post-Deodar base not comparable to the prior year. Management noted EBITDA margin is the more representative profitability metric, as gross margins are distorted by low-margin energy pass-through revenues.
- On the demand outlook, telecom sector consolidation may create near-term tenancy pressure due to network optimization; however, management expects long-term tenancy upside driven by data growth, network densification, and 5G rollout. On 5G specifically, management guided for a gradual, structural uplift rather than a sharp revenue jump, given only ~2% of handsets are currently 5G-enabled, though industry rollout of ~3,000 sites/year across operators should support steady infrastructure demand growth.

Fertilizer Business

- In the fertilizer segment, 1QFY26 improved YoY, supported by higher urea volumes and improved farmer economics, aided by better crop prices and purchasing power. Management expects overall demand to remain elevated on a YoY basis.
- Elevated global urea prices (~USD 950/ton) vs significantly lower domestic prices highlight Pakistan's strategic advantage in food security, with potential export optionality, though execution remains contingent on government policy.
- On GIDC exposure, management remains confident on the concessional case while acknowledging potential liability (~PKR 20bn fertilizer, ~PKR 4–5bn polymers). Should an adverse outcome materialize, the liability would remain manageable, either through installment-based settlement structures proposed by the relevant authorities, or absorbed via balance sheet flexibility.

Others

- The polymer business returned to profitability despite elevated energy costs, supported by cost efficiencies and improved spreads QoQ. However, management cautioned that margins remain volatile and not indicative of a steady-state run rate.
- In LNG, profitability remained under pressure due to lower volumes, reduced variable income, and a 15% tax on revenue. Management is engaging with stakeholders for potential tax rationalization in the upcoming budget.
- The energy segment continued to deliver stable cash flows and availability, with no major operational concerns. Notably, the previously planned divestment of power assets was not pursued due to valuation mismatch.
- In dairy (FrieslandCampina), while 1QFY26 margins improved, the category remains structurally challenged due to low penetration of packaged milk (~6–8%), competition from loose milk, and higher taxation. Management is focusing on value-added products (cream, ice cream, powders) and operational efficiencies to sustain profitability.

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