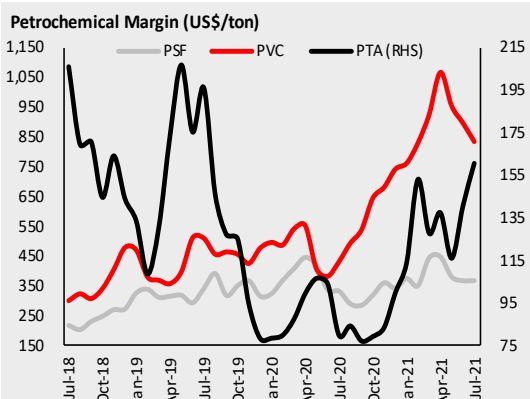


PAKISTAN



Source: Bloomberg, Foundation Research, July 2021

Pakistan Chemicals

PVC margins on downward trajectory

Event

▪ Petrochemical markets have seen mixed trend in recent times. During the first week of July, PVC-Ethylene margins fell by ~7% compared to June after a decline of ~6% MoM in June. Meanwhile, PTA-PX Int'l margin currently stand at \$160/ton, up by ~14% compared to June.

▪ We expect that PVC-Ethylene and PTA-PX Int'l margins to normalize going forward as supply chain disruptions ease and oil prices rise.

Impact

▪ **PVC-Ethylene margins decline:** Ethylene prices rose due to (1) higher upstream crude and naphtha values, (2) persistent tight product availability in the region owing to planned and unplanned cracker shutdowns and (3) stronger downstream polyethylene pricing trends. On the other hand, PVC prices fell in the region, mainly on account of bearish demand trends.

▪ In first week of July 2021, PVC prices decreased by ~4% compared to June. While ethylene prices increased ~3% during July compared to June. The net effect of this is that PVC-Ethylene int'l margins were down by ~7% but are still at US\$836/ton (52% above 3-year average) and down from record US\$1,000+/ton seen from mid-March to mid-May. Whereas in June, PVC-Ethylene margins fell by ~6% MoM on the back of ~9% MoM decline in PVC prices and ~14% MoM decline in ethylene prices.

▪ **PTA-PX margins rose:** During first week of July 2021, PTA-PX margins increased by ~14% compared to June due to 1% incline in PX (raw material) prices and 4% increase in PTA prices. According to S&P Global, PTA market fundamentals are likely to remain weak amid ample supply in China and yet-to-recover Indian demand. Whereas, PX prices have shown uptick despite uncertainty around PTA run rates in China as a result of poor fundamentals and weak margins has prompted PX market participants to adopt a cautious stance on the demand outlook.

▪ Looking ahead, in the near term PX prices are expected to climb higher given that oil prices (PX is a 2nd level derivative of crude oil) are likely to remain elevated as we believe OPEC+ would sustain supply cuts amid stronger demand due to major economies around the world opening up. However, reflection on PTA prices of above mentioned factor would also be determined by supply-demand dynamics.

▪ **EPCL to report record profitability in Q2CY21:** EPCL is expected to report 2QCY21 earnings of Rs5.4/sh (diluted EPS of Rs4.1) given record high PVC-Ethylene margins of US\$985/ton (up by 120% YoY) during 2QCY21 despite (1) lower premium being charged on PVC sales due to higher imports and (2) US\$-Rs appreciating by 6% YoY.

▪ **LOTCEM to post robust earnings:** We expect LOTCEM would post profitability of Rs1.0/sh during 2QCY21 on the back of 28% YoY increase in PTA-PX margin despite US\$-Rs appreciating by 6% YoY.

Outlook

▪ We expect that PVC-Ethylene Int'l margin would decline in the near term as the PVC global supply shortage eases amid rising ethylene prices. Whereas we believe that PTA-PX Int'l margins would also decline in the near term due to rise in Int'l oil prices. However, we note that PVC-Ethylene margins are well above 3 year average of ~US\$551/ton and PTA-PX Int'l margins are above breakeven level of US\$84/ton.

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Acronyms

PTA	Purified Terephthalic Acid
PX	Paraxylene
PVC	Poly Vinyl Chloride
PSF	Polyester Staple Fiber

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.