

Earning Review

EPCL: 2QCY21 EPS clocked in at Rs2.60; DPS Rs7.0

Event

- Engro Polymer & Chemicals Limited (EPCL PA) profitability clocked in at Rs3.1bn (Diluted EPS Rs2.60) in 2QCY21 against Rs12mn (Diluted EPS Rs0.01) in 2QCY20. The result is below our expectation due to (1) lower premium charged on PVC sales and (2) high other expenses.
- The Company also announced a dividend of Rs7.0/sh for ordinary shareholders and Rs0.27/sh for preference shareholders for the quarter.

Impact

- The company's profitability increased on the back of (1) low base effect given COVID related lockdown last year, (2) 120% YoY increase in PVC-Ethylene margins (avg. margin of US\$985/ton during 2QCY21) and (3) 6% YoY decline in gas prices due to removal of GIDC. Support to profitability also came from EPCL's expansion of 100K tons which came online from March 2021 and has increased PVC capacity to 295K tons.
- Company has also announced that it would not be pursuing the previously announced LABSA project.
- Distribution/Admin expenses inclined by 109/28% YoY in 1QCY21 on the back of (1) increased production due to expansion and (2) low base effect.
- Other expenses increased by 455% YoY during 2Q. We await clarity from the management on this front.
- Finance cost showed a decline of 15% YoY due to reduction of 625bps in interest rates.

Outlook

- Current record high PVC-Ethylene Int'l margin and increased production due to expansion bodes well for the company's future profitability. PVC-Ethylene Int'l margin is still well above long term average level with expectation that the margin would decline from these levels as PVC global supply shortage eases going forward.

Fig 1: EPCL - 2QCY21 Financial Highlights

Rs (mn)	2QCY21	2QCY20	YoY	1QCY21	QoQ	1HCY21	1HCY20	YoY
Net sales	14,823	5,816	155%	15,671	-5%	30,494	12,874	137%
Gross profit	5,218	654	698%	6,236	-16%	11,453	1,906	501%
Distribution & marketing expenses	73	35	109%	74	-2%	148	91	62%
Administrative expenses	170	133	28%	166	2%	336	247	36%
Other Expenses	560	101	455%	123	356%	682	639	7%
Other Income	307	215	43%	282	9%	588	617	-5%
Finance cost	512	599	-15%	403	27%	915	1,367	-33%
PBT	4,210	1	na	5,751	-27%	9,961	179	na
PAT	3,142	12	na	4,147	-24%	7,289	180	na
EPS - Basic	3.46	0.01		4.56		8.02	0.20	
EPS - Diluted	2.60	0.01		3.43		6.03	0.15	
DPS - Ordinary	7.00	-		0.80		7.80		
DPS - Preference	0.27	-		0.27		0.54		
Gross Margin	35.2%	11.2%		39.8%		37.6%	14.8%	
Net Margin	21.2%	0.2%		26.5%		23.9%	1.4%	
Effective Tax Rate	25.4%	-989.8%		27.9%		26.8%	-0.5%	

Source: PSX, Company Accounts, Foundation Research, August 2021

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Recommendations definitions

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