

## PAKISTAN



## FSL Chemical Universe 3QCY21E Profitability Highlights

	3QCY21	3QCY20	YoY	QoQ
EPCL*	3.0	1.5	94%	15%
LOTCHEM	0.9	0.6	43%	38%

	9MCY21	9MCY20	YoY
EPCL*	9.0	1.7	434%
LOTCHEM	2.6	0.7	275%

\* Diluted EPS

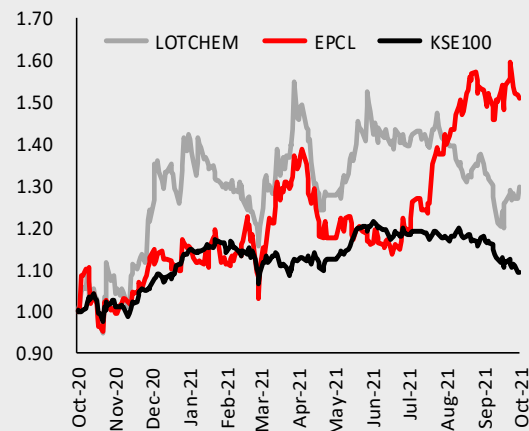
Dividend Expectation (Rs/sh)

EPCL 3.0

LOTCHEM -

Source: Company accounts, Foundation Research, Oct 2021

## FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, October 2021

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# Pakistan Chemicals

## Profitability to rise in 3QCY21 as domestic economy accelerates

### Event

Chemical sector profitability is expected to increase in 3QCY21 given rising petrochemical margins during 3QCY21 (PVC-Ethylene margin up by 71% YoY and PTA-PX margin up by 61% YoY) despite Rupee-US\$ appreciating by 1.6% YoY. We expect this would translate into EPCL posting Diluted EPS of Rs3.0/sh (Basic EPS of Rs4.0) in 3QCY21 (up 93/15% YoY/QoQ) and LOTCHEM profitability would be Rs0.9/sh in 3QCY21 (up 43/38% YoY/QoQ).

### Impact

**Higher petrochemical margins during 3QCY21:** Petrochemical sector has witnessed sharp uptick in margins during 3QCY21 with PVC-Ethylene margins up by 71% YoY due to (1) tight availability of PVC, and (2) buoyed construction demand given accelerating economic activities. Whereas, PTA-PX margins were up by 61% YoY during 3QCY21 given COVID related lockdown last year suppressing demand.

PVC prices were up by 56% YoY during 3QCY21 whereas Ethylene prices registered an uptick of 35% YoY during the same period. This has resulted in an increase of 71% YoY in PVC-Ethylene margins to US\$839/ton during 3QCY21. On a quarterly basis, PVC prices were down by 9% QoQ and Ethylene prices remained flat QoQ during 3QCY21. This has translated into a decrease of 14% QoQ in PVC-Ethylene margins.

PTA prices have gone up by 67% YoY during 3QCY21 amid a more subdued increase in PX raw material prices of 68% YoY. This has translated into an increase of 61% YoY in PTA-PX margins to an average of US\$129/ton during 3QCY21. In QoQ analysis, PTA prices escalated by 6% whereas PX prices were up by 7%. As a result, PTA-PX margins declined by 2% QoQ during the 3QCY21.

**Chemicals sector profitability to jump:** FSL Chemical universe is expected to post profitability of Rs4.9bn in 3QCY21 (up 74% YoY) compared to Rs2.8bn in 3QCY20 given (1) 60% YoY higher sales and (2) 70% increase in gross profit amid higher petrochemical margins. Whereas, profitability is expected to increase by 21% sequentially given 7% YoY higher sales during 3QCY21. Furthermore, profitability is projected to rise by 4.7x YoY during 9MICY21 given COVID related lockdown last year.

**EPCL to outperform:** EPCL is expected to post Diluted EPS of Rs3.0/sh (Basic EPS Rs4.0) in 3QCY21 versus Rs1.5 in 3QCY20 given (1) increased PVC-Ethylene margin (up 71% YoY) and (2) higher sales volumes given greater capacity and accelerating construction activity. Profitability would incline 15% sequentially as company charged lower premium on sales despite higher PVC-Ethylene margin in previous quarter.

**LOTCHEM to post EPS of Rs0.9:** LOTCHEM is expected to record profitability growth of 43% YoY to Rs0.9/sh in 3QCY21 attributable to (1) increased PTA-PX margin (up 61% YoY) and (2) 8% YoY higher sales volumes given low base effect last year. However, profitability would decline sequentially by 41%.

### Outlook

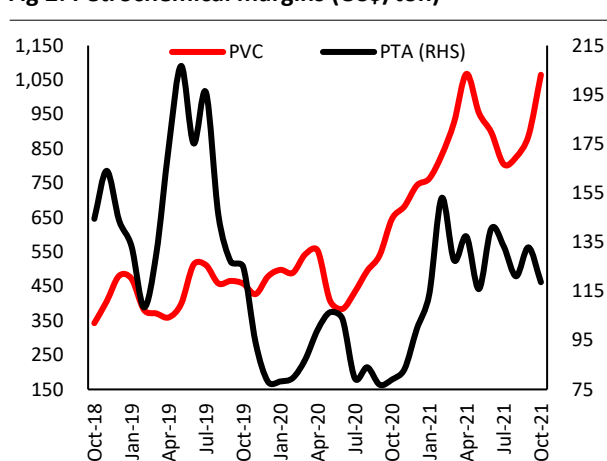
PVC-Ethylene Int'l margin is at record levels which bodes well for EPCL with expectation that the margin would decline from these levels as PVC global supply shortage eases going forward. We are positive towards LOTCHEM as margins are well above breakeven level of US\$83/ton, as per our calculation.

Fig 1: Chemical sector financial highlights 3QCY21E

Rs mn	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
<b>Net sales</b>	<b>33,375</b>	<b>20,826</b>	<b>60%</b>	<b>7%</b>	<b>94,791</b>	<b>49,823</b>	<b>90%</b>
Cost of sales	25,728	16,328	58%	6%	71,779	43,598	65%
<b>Gross profit</b>	<b>7,647</b>	<b>4,499</b>	<b>70%</b>	<b>11%</b>	<b>23,013</b>	<b>6,225</b>	<b>270%</b>
Distribution & marketing expenses	104	113	-9%	1%	309	257	21%
Administrative expenses	281	232	21%	-1%	845	687	23%
Other operating expenses	358	202	77%	-49%	1,379	984	40%
Other operating income	558	499	12%	-9%	1,733	1,707	2%
<b>EBIT</b>	<b>7,462</b>	<b>4,449</b>	<b>68%</b>	<b>17%</b>	<b>22,212</b>	<b>6,004</b>	<b>270%</b>
Finance Cost	830	468	77%	2%	1,946	1,685	15%
<b>Profit before taxation</b>	<b>6,632</b>	<b>3,981</b>	<b>67%</b>	<b>19%</b>	<b>20,266</b>	<b>4,319</b>	<b>369%</b>
Taxation	1,695	1,189	43%	14%	5,438	1,234	341%
<b>Profit after taxation</b>	<b>4,857</b>	<b>2,793</b>	<b>74%</b>	<b>21%</b>	<b>14,586</b>	<b>3,086</b>	<b>373%</b>

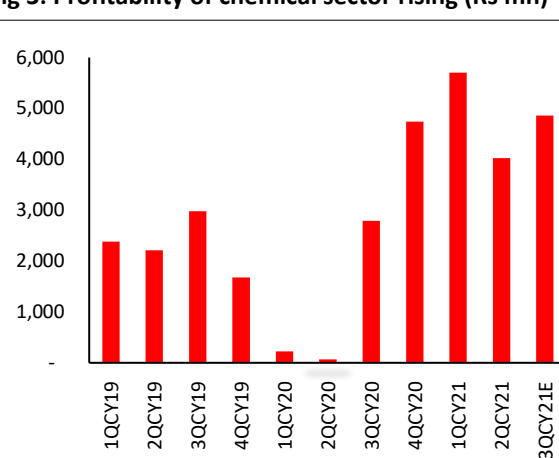
Source: Company Accounts, Foundation Research October 2021

Fig 2: Petrochemical margins (US\$/ton)



Source: Bloomberg, FSL Research, October 2021

Fig 3: Profitability of chemical sector rising (Rs mn)



Source: OCAC, FSL Research, October 2021

**Acronyms**

PTA	Purified Terephthalic Acid
PX	Paraxylene
PVC	Poly Vinyl Chloride
PSF	Polyester Staple Fiber
YoY	Year-on-year
MoM	Month-on-Month

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