

Foundation Alert

EPCL: 3QCY21 Analyst Briefing Takeaways

Event

- Engro Polymer and Chemical held its 3QCY21 Analyst Briefing today to discuss financial/operational performance and outlook of the company.

Impact

- During 3Q, company recorded highest ever PAT, highest ever sales, highest ever PVC market share of 94% and PVC/Caustic liquid/Caustic flakes exports of 16/4/1KT. Increase in profitability is attributable to (1) higher volumetric sales due to capacity expansion coming online, (2) efficient plant operations and (3) historically high international PVC prices.
- During 3Q, international PVC prices declined because of (1) increase in demand in India post easement of lockdown, (2) Hurricane Ida which knocked off 60% of PVC supply on US Gulf coast, (3) Lower production rates in China on account of Power Control Policy issued by Chinese government.
- Ethylene prices increased towards the end of 3QCY21 due to rising crude prices which reached as high as US\$80/bbl.
- The PVC price trajectory resulted in increase in core delta during the quarter.
- PVC domestic sales increased to 56KT during 2Q compared to last year (exports were 6KT) despite high PVC international prices. Company's market share of PVC during 9MCY21 was 94% compared to 64% in 9MCY20. Pipes and fittings remained major application of PVC with 56% market share.
- PVC prices would remain bullish as a result of continued supply disruptions from most PVC plants in China.
- Ethylene prices would be impacted by decision of OPEC+ on global crude oil production and its resultant impact on oil prices.
- EDC prices would continue to rise driven by high demand and slow recovery of supply.
- Company estimates that domestic caustic market declined to 30% in 9MCY21 from 33% in 1HCY21 driven by production issue which resulted in product supply constraints. Company aims to capture lost sales in months ahead. Company sold 15KT of Caustic domestically (including 4/1KT exports of caustic liquid/caustic flakes).
- Efficiency projects and Hydrogen Peroxide are expected to come online in 2021/2023 and 1HCY23 respectively.
- Company recorded unwinding of GIDC under IFRS-9 with PAT impact of Rs149mn.

Outlook

- Current 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 - 3QCY21 Financial Highlights

Rs (mn)	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Net sales	18,826	10,057	87%	27%	49,321	22,932	115%
Gross profit	5,241	3,217	63%	0%	16,695	5,123	226%
Distribution & marketing expenses	79	85	-6%	9%	227	176	29%
Administrative expenses	126	122	3%	-26%	462	369	25%
Other Expenses	788	101	682%	41%	1,470	740	99%
Other Income	376	223	68%	23%	964	840	15%
Finance cost	487	454	7%	-5%	1,401	1,821	-23%
PBT	4,138	2,679	54%	-2%	14,099	2,858	393%
PAT	3,119	1,868	67%	-1%	10,409	2,048	408%
EPS - Basic	3.43	2.05			11.45	2.25	
EPS - Diluted	2.58	1.54			8.61	1.69	
DPS - Ordinary	3.00	-			10.80	-	
DPS - Preference	0.30	-			0.84	-	
Gross Margin	27.8%	32.0%			33.8%	22.3%	
Net Margin	16.6%	18.6%			21.1%	8.9%	
Effective Tax Rate	24.6%	30.3%			26.2%	28.4%	

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

AnalystZeeshan Azhar
+92 21 3561 2290-94zeeshan@fs.com.pk
Ext 331**Important disclosures:**

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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