

PAKISTAN



FSL Chemical Universe 4QCY21E Profitability Highlights

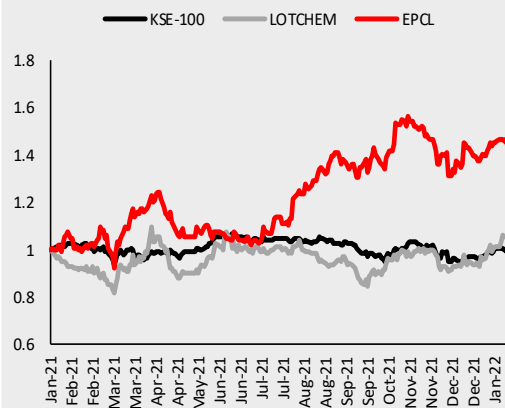
	4QCY21	4QCY20	YoY	QoQ
EPCL*	3.4	3.0	13%	33%
LOTCEM	0.7	0.7	-9%	58%
	CY21	CY20	YoY	
EPCL*	12.0	4.7	155%	
LOTCEM	2.8	1.4	99%	
* Diluted EPS				

Dividend Expectation (Rs/sh)

EPCL	-
LOTCEM	0.4

Source: Company accounts, Foundation Research, Feb 2022

FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, Feb 2022

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Pakistan Chemicals

Profitability to rise in 4QCY21 as petrochemical margins surge

Event

- Chemical sector profitability is expected to increase in 4QCY21 given rising petrochemical margins during 4QCY21 (PVC-Ethylene margin up by 58% YoY and PTA-PX margin up by 62% YoY) amid Rupee-US\$ depreciating by 7.9% YoY. We expect this would translate into EPCL posting Diluted EPS of Rs3.4/sh in 4QCY21 (up 13/33% YoY/QoQ) and LOTCEM profitability would be Rs0.7/sh in 4QCY21 (down/up 9/58% YoY/QoQ).

Impact

- Higher petrochemical margins during 4QCY21:** Petrochemical sector has witnessed sharp uptick in margins during 4QCY21 with PVC-Ethylene margins up by 58% YoY due to (1) supply chain shortages in post-lockdown environment, and (2) buoyed PVC demand given accelerating economic activities. Whereas, PTA-PX margins were up by 62% YoY during 4QCY21 given supply chain shortages in post-lockdown environment.

- PVC prices were up by 45% YoY during 4QCY21 whereas Ethylene prices registered an uptick of 25% YoY during the same period. This has resulted in an increase of 58% YoY in PVC-Ethylene margins to US\$1,084/ton during 4QCY21. In QoQ analysis, PVC prices were up by 21% and Ethylene prices were up by 7% during 4QCY21. This has translated into an increase of 30% QoQ in PVC-Ethylene margins.

- PTA prices have gone up by 60% YoY during 4QCY21 amid a similar increase in PX raw material prices of 61% YoY. This has translated into an increase of 60% YoY in PTA-PX margins to an average of US\$137/ton during 4QCY21. In QoQ analysis, PTA prices remained flat whereas PX prices were down by 2%. As a result, PTA-PX margins declined by 6% QoQ during the 4QCY21.

- Chemicals sector profitability to rise:** FSL Chemical universe is expected to post profitability of Rs5.1bn in 4QCY21 (up 7% YoY) compared to Rs4.7bn in 4QCY20 given 9% increase in gross profit amid higher petrochemical margins. Whereas, profitability is expected to increase by 38% sequentially given 8% YoY higher sales during 3QCY21. Furthermore, profitability is projected to rise by 4.4x YoY during CY21 given higher petrochemical margins.

- EPCL to outperform:** EPCL is expected to post Diluted EPS of Rs3.4/sh in 4QCY21 (up 13% YoY) versus Rs3.0 in 4QCY20 given (1) increased PVC-Ethylene margin (up 58% YoY) and (2) higher sales volumes given greater capacity and accelerating construction activity despite company charging lower premium on sales. Sequentially, profitability would incline 33% given higher PVC-Ethylene margin.

- LOTCEM to post EPS of Rs0.7:** LOTCEM is expected to witness profitability of Rs0.7/sh (↓/↑ 9/58% YoY/QoQ) in 4QCY21 attributable to 105% YoY increase in cost of Acetic Acid (raw material) despite (1) PTA-PX margin rising by 62% YoY and (2) 7.9% YoY depreciation of Rs-US\$.

Outlook

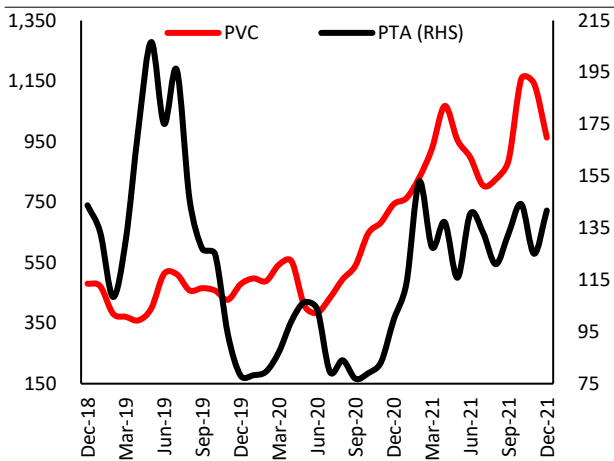
- PVC-Ethylene Int'l margin is at record levels which bodes well for EPCL with expectation that the margin would decline from these levels as PVC global supply shortage eases going forward. We are positive towards LOTCEM as margins are well above breakeven level of US\$83/ton, as per our calculation.

Fig 1: Chemical sector financial highlights 4QCY21E

Rs mn	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Net sales	39,177	24,473	60%	8%	136,719	61,896	121%
Cost of sales	31,177	17,107	82%	6%	106,718	54,102	97%
Gross profit	8,000	7,366	9%	21%	30,001	7,795	285%
Distribution & marketing expenses	108	94	15%	1%	420	283	48%
Administrative expenses	253	297	-15%	2%	1,067	803	33%
Other operating expenses	367	225	63%	-59%	2,273	1,113	104%
Other operating income	651	802	-19%	-2%	2,492	2,233	12%
EBIT	7,923	7,552	5%	31%	28,733	7,828	267%
Finance Cost	737	656	12%	-31%	2,916	1,971	48%
Profit before taxation	7,186	6,896	4%	44%	25,817	5,857	341%
Taxation	2,035	2,144	-5%	63%	7,027	1,684	317%
Profit after taxation	5,062	4,739	7%	38%	18,448	4,173	342%

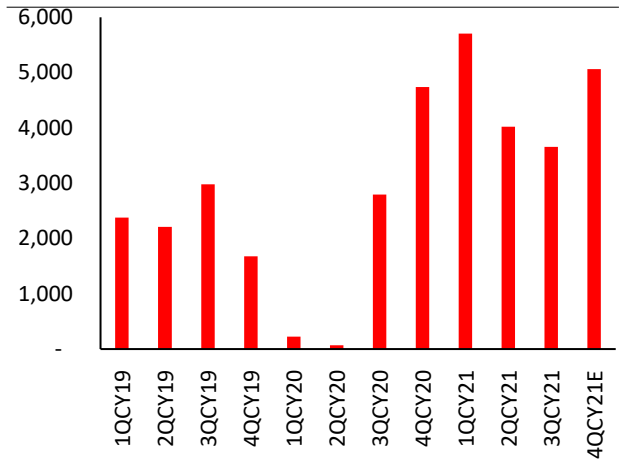
Source: Company Accounts, Foundation Research February 2022

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



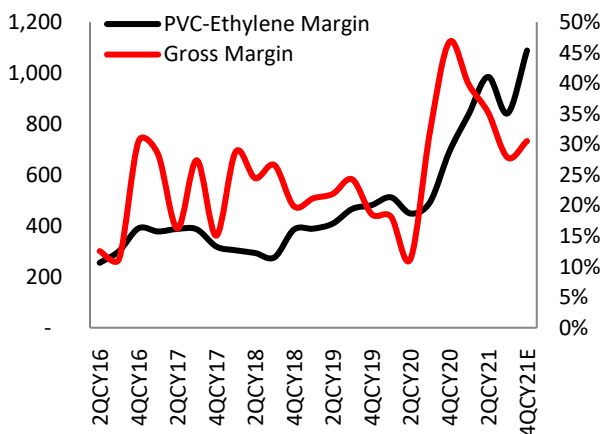
Source: Bloomberg, FSL Research, February 2022

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



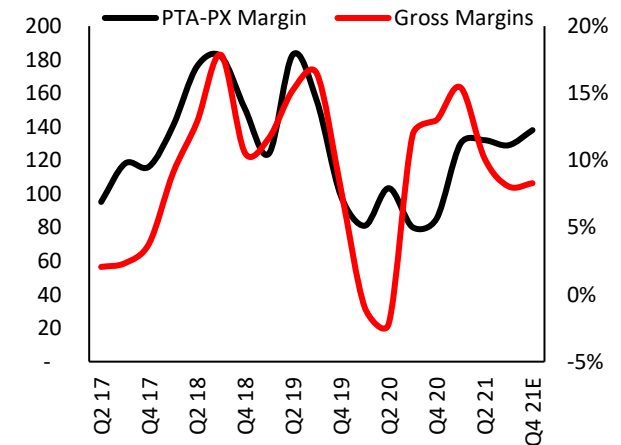
Source: OCAC, FSL Research, February 2022

Fig 4: EPCL GM tracking PVC-Ethylene margins



Source: Bloomberg, Comp Acc., FSL Research, Feb

Fig 5: LOTCHEM GM tracking PTA-PX margins



Source: Bloomberg, Comp Acc., FSL Research, Feb

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