

Foundation Alert

EPCL: 4QCY21 Analyst Briefing Takeaways

Event

- Engro Polymer and Chemical held its 4QCY21 Analyst Briefing today to discuss financial/operational performance and outlook of the company.

Impact

- During CY21, company recorded highest ever PAT, highest ever sales, highest ever dividend payout and PVC/Caustic exports of US\$28mn. 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.
- Operational issues, longer than expected turnarounds, disruptions caused by climate events and higher freight costs kept PVC prices elevated during CY21. China shutting down its coal based capacities particularly affected PVC prices during 4Q. Raw material such as Ethylene followed suit, as a result of supply tightness and increased demand owing to economic activity picking up post COVID recovery.
- The PVC price trajectory resulted in increased core delta during the quarter.
- Global PVC demand maintained growth trajectory in CY21 of 49MT from 46/43MT in CY19/20. PVC consumption in Pakistan of 1.2 kg per capita remains below potential when compared to south asia/global average of 2.0/6.0 kg per capita which shows enormous potential for future growth.
- PVC domestic sales increased to 55KT during 4Q (exports were 3.4KT) despite high PVC international prices. Pipes and fittings remained major application of PVC with 54% market share. During CY21, EPCL sold 208/19.4KT in domestic/export markets.
- PVC prices are expected to soften as more capacities are expected to come back online. Whereas ethylene prices would remain impacted by crude oil prices and demand from other ethylene derivatives.
- Company estimates that domestic caustic market share declined to 29% in CY21 from 33% in 1HCY21 driven by product limitation due to lower avails in 4H. In the domestic market, company sold 16/2KT of Caustic liquid/flakes during 4Q. During CY21, company sold 80KT of Caustic in domestic (68/7KT liquid/flakes) and export markets (5KT).
- Domestic caustic prices are determined by market dynamics and cost considerations. Furthermore, reliable supply of gas would continue to pose a major challenge for overall chlor alkali (caustic) business.
- Oxy Vent Recycle efficiency project is nearing completion which will improve raw material efficiency ratio. High Temperature Direct Chlorination efficiency project and Hydrogen Peroxide project are expected to come online in 2023.

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 - 4QCY21 Financial Highlights

Rs (mn)	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Net sales	20,699	12,400	67%	10%	70,020	35,331	98%
Gross profit	7,341	5,826	26%	40%	24,035	10,949	120%
Distribution & marketing expenses	149	67	121%	88%	376	243	55%
Administrative expenses	221	181	22%	75%	683	550	24%
Other Expenses	884	96	821%	12%	2,354	836	182%
Other Income	344	246	40%	-9%	1,308	1,087	20%
Finance cost	501	370	35%	3%	1,902	2,191	-13%
PBT	5,930	5,358	11%	43%	20,028	8,216	144%
PAT	4,694	3,664	28%	50%	15,103	5,712	164%
EPS - Basic	5.16	4.03			16.61	6.28	
EPS - Diluted	3.88	3.03			12.49	4.72	
DPS - Ordinary	5.50	1.25			16.30	1.25	
DPS - Preference	0.27	0.04			1.11	0.04	
Gross Margin	35.5%	47.0%			34.3%	31.0%	
Net Margin	22.7%	29.6%			21.6%	16.2%	
Effective Tax Rate	20.8%	31.6%			24.6%	30.5%	

Source: PSX, Company Accounts, Foundation Research, February 2022

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Ext 331**Important disclosures:**

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