

PAKISTAN



FSL Chemical Universe 1QCY22E Profitability Highlights

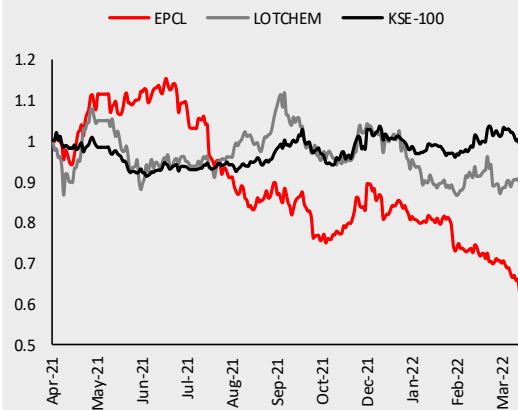
	1QCY22E	1QCY21	YoY	QoQ
EPCL*	3.3	3.4	-4%	-5%
LOTCHEM	1.3	1.1	21%	41%
* Diluted EPS				

Dividend Expectation (Rs/sh)

EPCL	1.1
LOTCHEM	-

Source: Company accounts, Foundation Research, Apr 2022

FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, Apr 2022

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Pakistan Chemicals

Profitability to rise in 1QCY22 amid higher PTA-PX margins

Event

Chemical sector profitability is expected to increase in 1QCY22 as petrochemical margins remained elevated (PVC-Ethylene margin at US\$814/ton and PTA-PX margin at US\$159/ton) amid Rupee-US\$ depreciating by 10.8% YoY. We expect this would translate into EPCL posting Diluted EPS of Rs3.3/sh in 1QCY22 (down 4/5% YoY/QoQ) and LOTCHEM profitability would be Rs1.3/sh in 1QCY22 (up 21/41% YoY/QoQ).

Impact

Mixed trend in petrochemical margins during 1QCY22: Petrochemical sector has witnessed mixed trend in margins during 1QCY22 with PVC-Ethylene margins down by 4% YoY due to higher Ethylene (raw material) prices amid higher oil prices despite buoyed PVC demand given accelerating economic activities. Whereas, PTA-PX margins were up by 22% YoY during 1QCY22 amid supply chain shortages in post-lockdown environment.

PVC prices were up by 5% YoY during 1QCY22 whereas Ethylene prices registered an uptick of 20% YoY during the same period. This has resulted in a decline of 4% YoY in PVC-Ethylene margins to US\$814/ton during 1QCY22. Sequentially, PVC prices were down by 14% and Ethylene prices were up by 10% during 1QCY22. This has translated into a fall of 25% QoQ in PVC-Ethylene margins.

PTA prices have gone up by 37% YoY during 1QCY22 amid increase in PX raw material prices of 34% YoY. This has translated into an increase of 21% YoY in PTA-PX margins to an average of US\$159/ton during 1QCY22. In QoQ analysis, PTA prices inclined by 15% whereas PX prices were up by 16%. As a result, PTA-PX margins increased by 14% QoQ during the 1QCY22.

Chemicals sector profitability to rise: FSL Chemical universe is expected to post profitability of Rs5.9bn in 1QCY22 (up 3% YoY) compared to Rs5.7bn in 1QCY21 given 23% YoY increase in gross profit amid 46% YoY increase in sales. Whereas, profitability is expected to increase by 6% sequentially on the back of 12% YoY higher sales during 1QCY22.

EPCL profitability to decline: EPCL is expected to post Diluted EPS of Rs3.3/sh in 1QCY22 (down 4% YoY) versus Rs3.4 in 1QCY21 amid (1) decline in PVC-Ethylene margin (down 4% YoY) and (2) company charging lower premium on sales despite higher sales volumes given greater capacity and accelerating construction activity. Sequentially, profitability would decline 5% amid lower PVC-Ethylene margin.

LOTCHEM to post EPS of Rs1.3: LOTCHEM is expected to witness profitability of Rs1.3/sh (up 21% YoY) in 1QCY22 attributable to (1) PTA-PX margin rising by 21% YoY and (2) ~11% YoY depreciation of avg. Rs-US\$. Sequentially, profitability would increase by 41% YoY on the back of higher PTA-PX margins.

Outlook

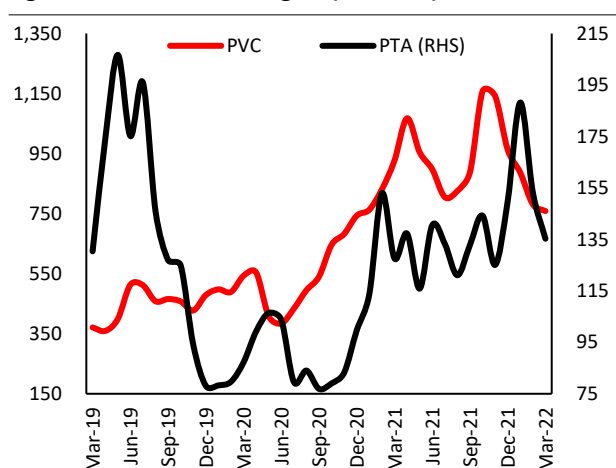
PVC-Ethylene Int'l margin is expected to decline from current levels as (1) ethylene price is expected to remain elevated amid higher crude oil prices and demand from other ethylene derivatives and (2) PVC global supply shortage eases going forward which bodes negatively for EPCL profitability. We are positive towards LOTCHEM as margins are well above breakeven level of US\$83/ton, as per our calculation.

Fig 1: Chemical sector financial highlights 1QCY22E

Rs mn	1QCY22E	1QCY21	YoY	QoQ
Net sales	42,797	30,343	41%	8%
Cost of sales	32,912	21,844	51%	10%
Gross profit	9,885	8,499	16%	3%
Distribution & marketing expenses	128	103	24%	-30%
Administrative expenses	310	281	10%	-14%
Other operating expenses	640	323	98%	-32%
Other operating income	380	559	-32%	-17%
EBIT	9,186	8,351	10%	7%
Finance Cost	794	304	161%	14%
Profit before taxation	8,392	8,047	4%	6%
Taxation	2,415	2,260	7%	6%
Profit after taxation	5,896	5,705	3%	6%

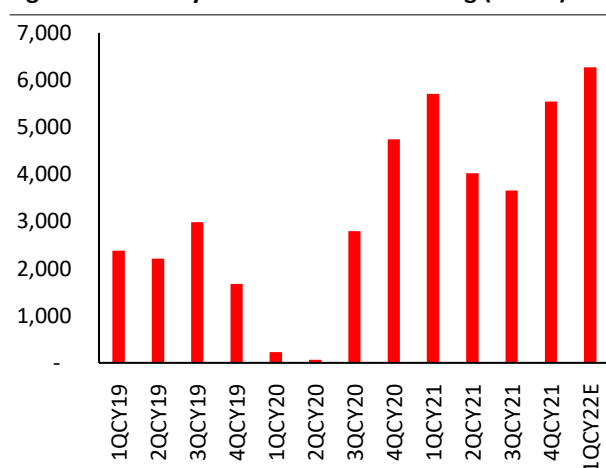
Source: Company Accounts, Foundation Research April 2022

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



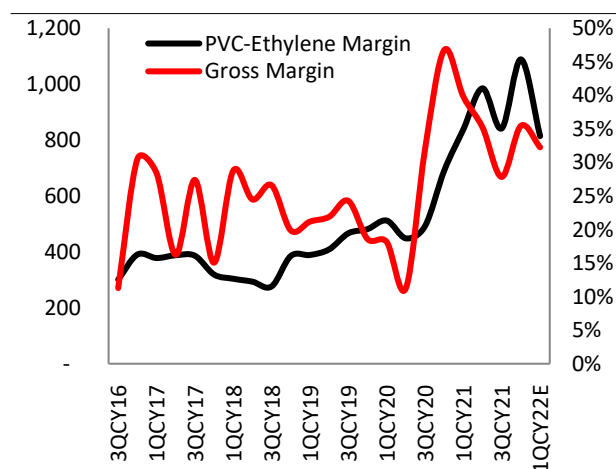
Source: Bloomberg, FSL Research, April 2022

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



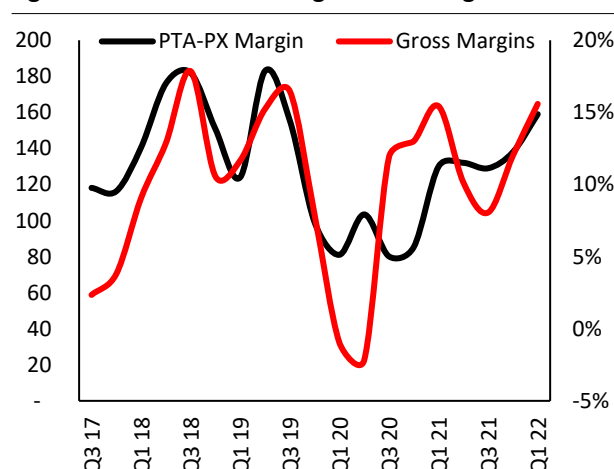
Source: OCAC, FSL Research, April 2022

Fig 4: EPCL GM in sync with PVC-Ethylene margins



Source: Bloomberg, Comp Acc., FSL Research, Apr 22

Fig 5: LOTCHEM GM tracking PTA-PX margins



Source: Bloomberg, Comp Acc., FSL Research, Apr 22

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