

Foundation Alert

EPCL: 1QCY22 Analyst Briefing Takeaways

Event

- Engro Polymer and Chemical held its 1QCY22 Analyst Briefing today to discuss financial/operational performance and outlook of the company.

Impact

- During 1QCY21, company recorded highest ever PVC sales in the domestic market.
- Profitability increased by 14% YoY during the quarter which is attributable to (1) higher volumes, (2) efficient plant operations and (3) tax credit.
- International PVC prices continued their declining trend before facing reversal from the latter half of February. Industrial activity in India picked up pace, with construction and agriculture sectors driving PVC demand, particularly in the pipes segment for water and sanitation.
- Ethylene prices increased significantly in tandem and the market sentiment remained firm with increased cost pressures on producers and limited spot availability, particularly in Asia. In the US, abundance of ethylene supply opened arbitrage windows to Asia and Europe as naphtha based feedstock prices soared, however, trade volumes remained constricted due to deep sea cargo constraints.
- PVC domestic sales were highest ever at 62.5KT during 1Q whereas exports were 1.89KT. Pipes and fittings remained major application of PVC with 55% market share.
- In the domestic market, company sold 15/2KT of Caustic liquid/ flakes during 1Q.
- Rs2.2bn oxygen based VCM project which was announced in Nov'18 has now been successfully commissioned.
- EPCL Board of Directors has approved US\$4mn CAPEX for conducting Basic Engineering followed by a Front End Engineering Design (FEED) study in relation to de-bottlenecking its VCM production facility to 300KT per annum.
- High Temperature Direct Chlorination (HTDC) and Hydrogen Peroxide project are on track as per plan.

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.

Fig 1: EPCL - 1QCY22 Financial Highlights

Rs (mn)	1QCY22	1QCY21	YoY	QoQ
Net sales	23,127	15,671	48%	12%
Gross profit	7,664	6,236	23%	4%
Distribution & marketing expenses	150	74	102%	1%
Administrative expenses	224	166	35%	2%
Other Expenses	843	123	587%	-5%
Other Income	425	282	51%	24%
Finance cost	606	403	51%	21%
PBT	6,266	5,751	9%	6%
PAT	4,721	4,147	14%	1%
EPS - Basic	5.19	4.56		
EPS - Diluted	3.91	3.43		
DPS - Ordinary	5.00	0.80		
DPS - Preference	0.37	0.27		
Gross Margin	66.9%	39.8%		
Net Margin	20.4%	26.5%		
Effective Tax Rate	24.7%	27.9%		

Source: PSX. Company Accounts. Foundation Research. April 2022

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