

## PAKISTAN



## FSL Chemical Universe 2QCY22E Profitability Highlights

	2QCY22E	2QCY21	YoY	QoQ
EPCL*	1.9	2.6	-25%	-50%
LOTCHEM	0.5	0.6	-15%	-69%

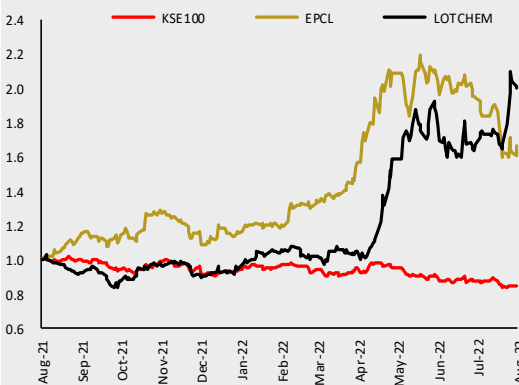
\* Diluted EPS

## Dividend Expectation (Rs/sh)

EPCL	1.5
LOTCHEM	-

Source: Company accounts, Foundation Research, Aug 2022

## FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, Aug 2022

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# Pakistan Chemicals

## Profitability to decline in 2QCY22 amid imposition of super tax

### Event

Chemical sector profitability is expected to decrease in 2QCY22 due to hit from super tax and decline in PVC-Ethylene margins (down 21% YoY to US\$775/ton). However, higher PTA-PX margin of US\$162/ton and Rupee depreciation of ~20.6% YoY has provided support to profitability. We expect this would translate into EPCL posting diluted EPS of Rs1.9/sh in 2QCY22 (down 25/50% YoY/QoQ) and LOTCHEM profitability would be Rs0.5/sh in 2QCY22 (down 15/69% YoY/QoQ).

### Impact

**Mixed trend in petrochemical margins during 2QCY22:** Petrochemical sector has witnessed mixed trend in margins during 2QCY22 with PVC-Ethylene margins down by 21/5% YoY/QoQ due to higher Ethylene (raw material) prices amid 68% YoY increase in oil prices. Whereas, PTA-PX margins were up by 23/2% YoY/QoQ during 2QCY22 given 41% YoY higher PTA prices.

PVC prices declined by 5% YoY during 2QCY22 whereas Ethylene prices registered an uptick of 27% YoY during the same period. This has resulted in a decline of 21% YoY in PVC-Ethylene margins to US\$775/ton during 2QCY22. Sequentially, PVC prices increased by 1% and Ethylene prices were up by 9% during 2QCY22. This has translated into a fall of 5% QoQ in PVC-Ethylene margins.

PTA prices have gone up by 41% YoY during 2QCY22 amid increase in PX raw material prices of 45% YoY. This has translated into an increase of 23% YoY in PTA-PX margins to an average of US\$162/ton during 2QCY22. In QoQ analysis, PTA prices inclined by 16% whereas PX prices were up by 18%. As a result, PTA-PX margins increased by 2% QoQ during the 2QCY22.

**Chemical sector profitability to decline:** FSL Chemical universe is expected to post profitability of Rs2.9bn in 2QCY22 (down 27% YoY) compared to Rs4.0bn in 2QCY21 given imposition of super tax despite 48% YoY increase in gross profit amid 52% YoY increase in sales. Whereas, profitability is expected to decrease by 60% sequentially on the back of imposition of super tax in 2QCY22.

**EPCL profitability to decline:** EPCL is expected to post diluted EPS of Rs1.9/sh in 2QCY22 (down 25% YoY) versus Rs2.6 in 2QCY21 amid decline in PVC-Ethylene margin (down 21% YoY) despite ~20.6% YoY depreciation of Rs-US\$ parity. Sequentially, profitability is expected to decline 50% amid hit from super tax and 5% QoQ lower PVC-Ethylene margin.

**LOTCHEM to post EPS of Rs0.5:** LOTCHEM is expected to witness profitability of Rs0.5/sh (down 15% YoY) in 2QCY22 attributable to imposition of super tax despite (1) 23% YoY higher PTA-PX margin and (2) ~20.6% YoY depreciation of avg. Rs-US\$. Sequentially, profitability would fall by 69% YoY given super tax hit in 2QCY22 despite 2% QoQ incline in PTA-PX margin.

### Outlook

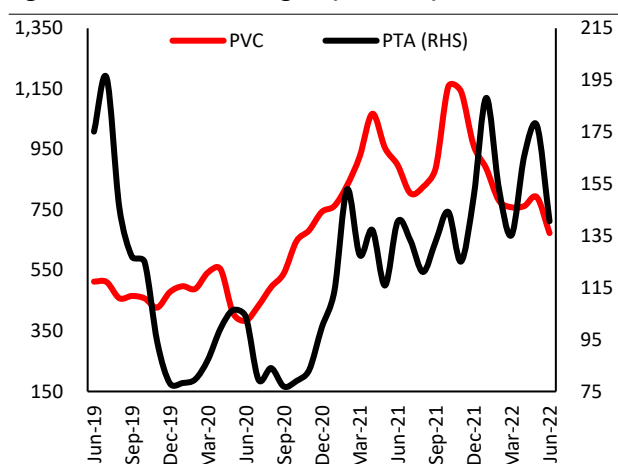
PVC-Ethylene Int'l margin is expected to decline from current levels as PVC prices are declining amid easing of global supply shortages which bodes negatively for EPCL profitability. We are positive towards LOTCHEM as margins are well above breakeven level of US\$92/ton, as per our calculation.

Fig 1: Chemical sector financial highlights 2QCY22E

Rs mn	2QCY22E	2QCY21	YoY	QoQ	1HCY22	1HCY21	YoY
<b>Net sales</b>	<b>47,286</b>	<b>31,073</b>	<b>52%</b>	<b>9%</b>	<b>90,744</b>	<b>61,417</b>	<b>48%</b>
Cost of sales	37,123	24,207	53%	17%	68,907	46,051	50%
<b>Gross profit</b>	<b>10,162</b>	<b>6,866</b>	<b>48%</b>	<b>-13%</b>	<b>21,837</b>	<b>15,366</b>	<b>42%</b>
Distribution & marketing expenses	133	102	30%	-30%	322	206	57%
Administrative expenses	296	283	5%	-15%	645	564	14%
Other operating expenses	1,519	698	118%	36%	2,638	1,021	158%
Other operating income	885	616	44%	10%	1,686	1,175	43%
<b>EBIT</b>	<b>9,099</b>	<b>6,399</b>	<b>42%</b>	<b>-16%</b>	<b>19,918</b>	<b>14,750</b>	<b>35%</b>
Finance Cost	1,038	811	28%	18%	1,921	1,116	72%
<b>Profit before taxation</b>	<b>8,062</b>	<b>5,587</b>	<b>44%</b>	<b>-19%</b>	<b>17,997</b>	<b>13,634</b>	<b>32%</b>
Taxation	5,048	1,483	240%	94%	7,647	3,743	104%
<b>Profit after taxation</b>	<b>2,933</b>	<b>4,024</b>	<b>-27%</b>	<b>-60%</b>	<b>10,188</b>	<b>9,729</b>	<b>5%</b>

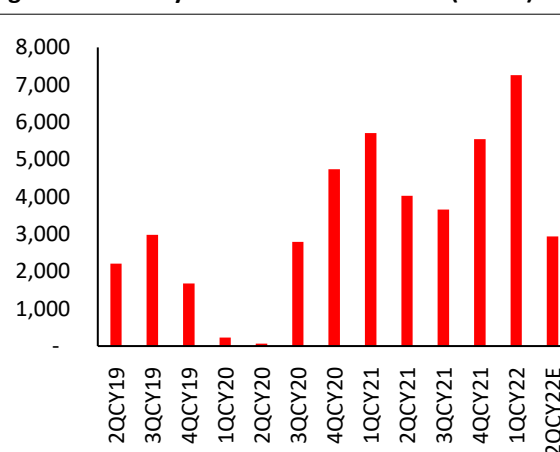
Source: Company Accounts, Foundation Research, August 2022

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



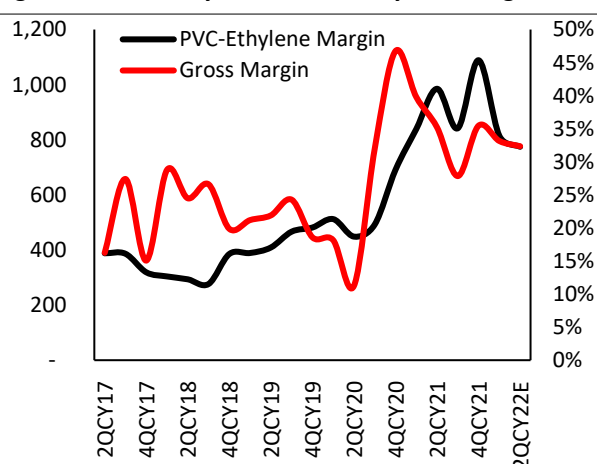
Source: Bloomberg, FSL Research, Aug 2022

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



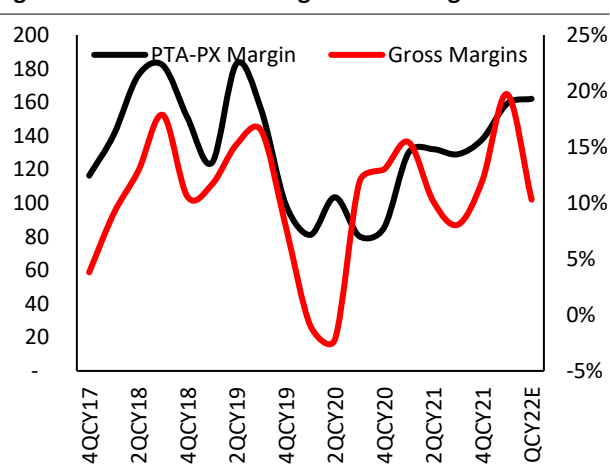
Source: Company accounts, FSL Research, Aug 2022

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



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

Fig 5: LOTCHEM GM tracking PTA-PX margins



Source: Bloomberg, Comp Acc., FSL Research, Aug 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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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.