

PAKISTAN



FSL Chemical Universe 3QCY22E Profitability Highlights

	3QCY22E	3QCY21	YoY	QoQ
EPCL*	1.4	2.6	-44%	-25%
LOTCEM	1.7	0.4	314%	-7%

* Diluted EPS

	9M CY22E	9M CY21	YoY
EPCL*	7.3	8.6	-15%
LOTCEM	5.3	2.1	148%

* Diluted EPS

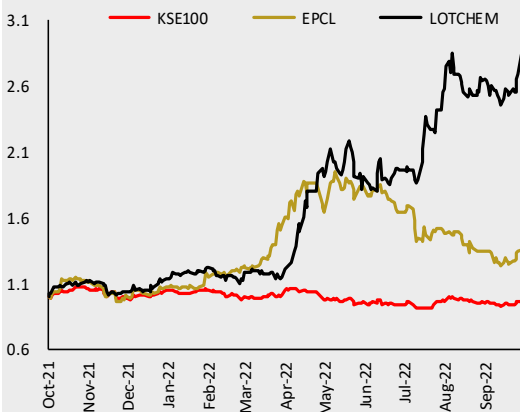
3QCY22E

Dividend Expectation (Rs/sh)

EPCL	1.3
LOTCEM	-

Source: Company accounts, Foundation Research, Oct 2022

FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, Oct 2022

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
+92 213 5612290 Ext 331

Foundation Securities (Pvt) Ltd
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Pakistan Chemicals

Sector profitability to increase in 3QCY22 as LOTCEM to post higher profit

Event

Chemical sector profitability is expected to increase in 3QCY22 due to higher PTA-PX margins (up 22% YoY to US\$157/ton) and higher Rupee depreciation of ~26.3% YoY. However, decline in PVC-Ethylene margins (down 46% YoY to US\$457/ton) has dented profitability. We expect this would translate into EPCL posting diluted EPS of Rs1.4/sh in 3QCY22 (down 44/25% YoY/QoQ) and LOTCEM profitability would be Rs1.7/sh in 3QCY22 (up/down 314/7% YoY/QoQ).

Impact

Mixed trend in petrochemical margins during 3QCY22: Petrochemical sector has witnessed mixed trend in margins during 3QCY22 with PVC-Ethylene margins down by 46/41% YoY/QoQ due to 29% YoY lower PVC prices amid 43% YoY increase in oil prices. Whereas, PTA-PX margins were up/down by 22/3% YoY/QoQ during 3QCY22 given 18% YoY higher PTA prices.

PVC prices declined by 29% YoY during 3QCY22 whereas Ethylene prices remained flat YoY during the same period. This has resulted in a decline of 46% YoY in PVC-Ethylene margins to US\$457/ton during 3QCY22. Sequentially, PVC prices declined by 32% and Ethylene prices were down by 22% during 3QCY22. This has translated into a fall of 41% QoQ in PVC-Ethylene margins.

PTA prices have gone up by 18% YoY during 3QCY22 amid increase in PX raw material prices of 18% YoY. This has translated into an increase of 22% YoY in PTA-PX margins to an average of US\$157/ton during 3QCY22. In QoQ analysis, PTA prices declined by 11% whereas PX prices were down by 12%. As a result, PTA-PX margins decreased by 3% QoQ during the 3QCY22.

Chemical sector profitability to increase: FSL Chemical universe is expected to post profitability of Rs4.3bn in 3QCY22 (up 17% YoY) compared to Rs3.7bn in 3QCY21 given 28% YoY increase in gross profit amid 23% YoY increase in sales. Whereas, profitability is expected to decrease by 15% sequentially on the back of 37% YoY decline in gross profit during 3QCY22.

EPCL profitability to decline: EPCL is expected to post diluted EPS of Rs1.4 in 3QCY22 (down 44% YoY) versus Rs2.6 in 3QCY21 amid decline in PVC-Ethylene margin (down 46% YoY) despite ~26.3% YoY depreciation of Rs-US\$ parity. Sequentially, profitability is expected to decline 25% amid 41% QoQ lower PVC-Ethylene margin.

LOTCEM to post EPS of Rs1.7: LOTCEM is expected to witness profitability of Rs1.7/sh (up 314% YoY) in 3QCY22 attributable to (1) 22% YoY higher PTA-PX margin and (2) ~26.3% YoY depreciation of avg. Rs-US\$. Sequentially, profitability would fall by 7% YoY given 3% QoQ decline in PTA-PX margin.

Outlook

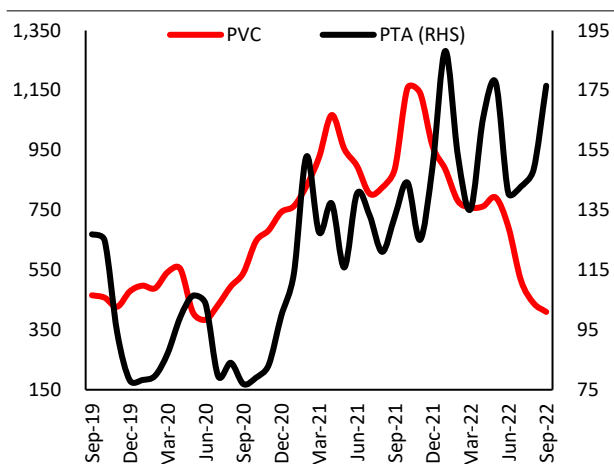
PVC-Ethylene Int'l margin is expected to decline from current levels as PVC prices are declining amid easing of global supply shortages which bodes negatively for EPCL profitability. We are positive towards LOTCEM as margins are well above breakeven level of US\$92/ton, as per our calculation.

Fig 1: Chemical sector financial highlights 3QCY22E

Rs mn	3QCY22E	3QCY21	YoY	QoQ	9MCY22E	9MCY21	YoY
Net sales	44,362	36,125	23%	-15%	139,724	97,542	43%
Cost of sales	35,852	29,490	22%	-7%	106,016	75,541	40%
Gross profit	8,509	6,635	28%	-37%	33,707	22,001	53%
Distribution & marketing expenses	152	107	42%	0%	493	313	58%
Administrative expenses	406	249	63%	0%	1,161	813	43%
Other operating expenses	1,050	885	19%	-37%	3,845	1,906	102%
Other operating income	911	666	37%	5%	2,582	1,841	40%
EBIT	7,812	6,060	29%	-36%	30,789	20,810	48%
Finance Cost	1,461	1,063	37%	0%	3,804	2,179	75%
Profit before taxation	6,352	4,996	27%	-41%	26,985	18,630	45%
Taxation	2,006	1,249	61%	-64%	10,178	4,992	104%
Profit after taxation	4,265	3,657	17%	-15%	16,564	13,386	24%

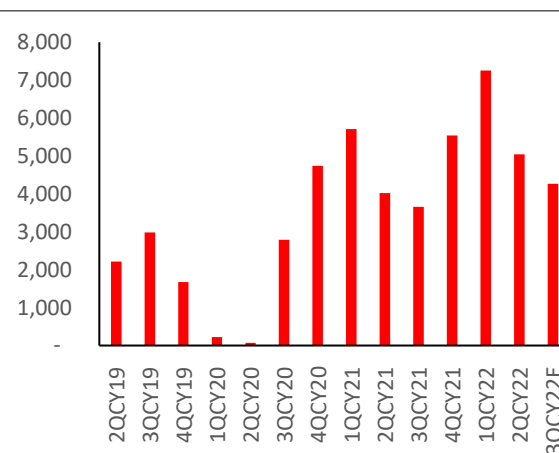
Source: Company Accounts, Foundation Research, Oct 2022

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



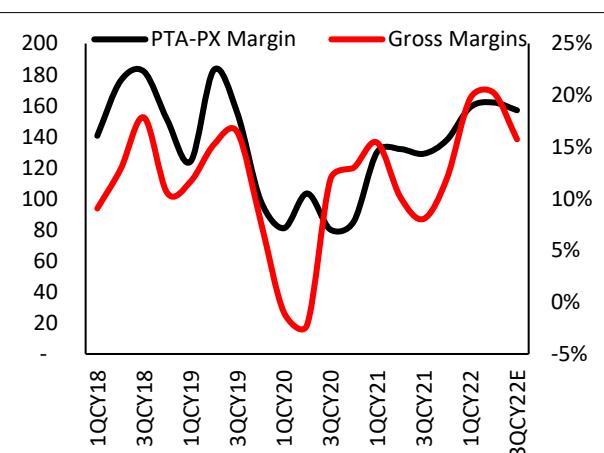
Source: Bloomberg, FSL Research, Oct 2022

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



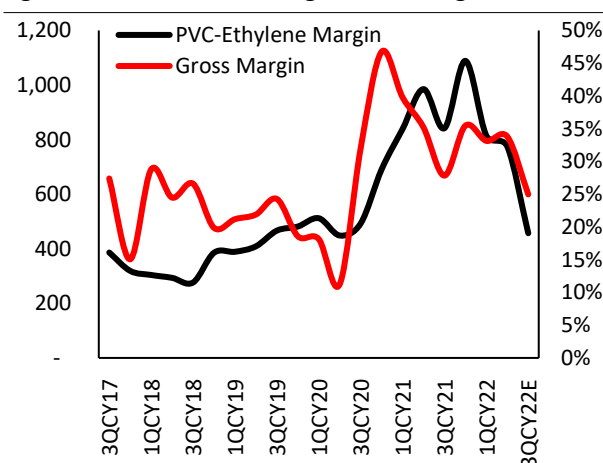
Source: Company accounts, FSL Research, Oct 2022

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



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

Fig 5: LOTCHEM GM tracking PTA-PX margins



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