Foundation Alert

EPCL: 3QCY22 Analyst Briefing Takeaways

Event

- Engro Polymer and Chemical (EPCL PA) held its 3QCY22 analyst briefing today to discuss financial/operational performance and outlook of the company.

Impact

- During 3QCY22, profitability was affected by (1) sharp increase in cost of doing business given unprecedented currency devaluation and inflationary pressures resulting in FX loss and high finance cost, and (2) supply chain disruptions in China affecting timelines for delivery of various materials.
- International PVC prices declined owing to a global demand slowdown on the back of rising inflation. In China, the market continued to remain impacted owing to zero-COVID policy of the Gov't.
- Ethylene prices remained bearish, following a decline in oil prices and excess supply in Asia. Increased supply in Asia is due to reduced downstream activity on the back of scheduled maintenance, production issues and weak margins. Ethylene prices will remain impacted by crude oil prices and OPEC+ decisions.
- PVC prices are expected to slowly rebound as Indian demand recovers post monsoon and China COVID cases subside.
- PVC domestic sales were 50.5KT during 3Q whereas exports were 0.3KT. Pipes and fittings remained major application of PVC with 56% market share.
- In the domestic market, company sold 13/2KT of Caustic liquid/ flakes during 3Q.
- Company revenue declined by 10% YoY in 3QCY22 on the back of lower volumetric sales and declining PVC prices. Whereas, decline in PAT is attributed to impact of super tax and inflationary pressures.
- Management stated that given the ongoing economic uncertainty, the company is facing inflationary pressures on account of instability in Rupee-US$ parity, high fuel prices and rising KIBOR rates.
- High Temperature Direct Chlorination (HTDC) and Hydrogen Peroxide project are on track for commissioning in next year.

Outlook

- PVC-Ethylene Int'l margin is expected to decline from current levels as (1) ethylene price tracks higher crude oil prices and (2) PVC global supply shortage eases going forward which bodes negatively for EPCL profitability.

Fig 1: EPCL - 3QCY22 Financial Highlights

Rs (mn)	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Net sales	16,904	18,826	-10%	-24%	62,308	49,321	26%
Gross profit	**4,973**	**5,241**	**-5%**	**-34%**	**20,165**	**16,737**	**20%**
Distribution & marketing expenses	129	79	63%	10%	398	227	75%
Administrative expenses	285	126	126%	4%	784	553	42%
Other Expenses	1,025	788	30%	-20%	3,152	1,422	122%
Other Income	466	376	24%	13%	1,303	964	35%
Finance cost	853	487	75%	15%	2,199	1,401	57%
PBT	3,146	4,138	-24%	-43%	14,930	14,099	6%
PAT	**2,281**	**3,119**	**-27%**	**-2%**	**9,341**	**10,409**	**-10%**
EPS - Basic	2.51	3.43			10.28	11.45	
EPS - Diluted	**1.89**	**2.58**			**7.73**	**8.61**	
DPS - Ordinary	2.50	3.00			10.00	10.80	
DPS - Preference	0.48	0.30			1.22	0.84	
Gross Margin	29.4%	27.8%			32.4%	33.9%	
Net Margin	13.5%	16.6%			15.0%	21.1%	
Effective Tax Rate	27.5%	24.6%			37.4%	26.2%	

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

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Recommendations definitions

If

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