

Foundation Alert

LOTCHEM: Analyst Briefing Takeaways

Event

- Lotte Chemical Pakistan Limited (LOTCHEM PA) held its Analyst briefing today to discuss 3QCY22 financial performance of the company along with its future prospects. Following are the key takeaways.

Impact

- PX prices tumbled during 3Q on the back of weak upstream crude oil market amid sluggish demand due to recessionary fears elicited by the slowing economic growth and continued lockdowns in China.
- The PTA market trended lower tracking the movement in the PX market amid weak indigenous supply/demand fundamentals. Lack of recovery in PTA operations was mainly due to poor global demand inundated by recessionary fears, persistent lockdowns in China and the resulting higher inventories in the polyester chain.
- The domestic polyester market operated at a rate of 80% during 3QCY22 owing to curtailed supply of utilities for the industry.
- The average PTA price for the 3QCY22 was US\$845/ton while the average PTA margin over PX was US\$122/ton compared to US\$119/ton for the previous quarter. The average PX price for the 3QCY22 was US\$1,095.7/ton, 13% lower than the last quarter.
- LOTCHEM produced 126.6 KT of PTA, up 4% YoY, during 3QCY22. Whereas, sales of PTA were 126.3 KT, down 2% YoY, in 3QCY22.
- Company operated at 72% capacity during the quarter.
- LOTCHEM sales of PTA are 70-75% to Polyester Staple Fiber (PSF) industry.
- Company is not facing any issue so far in supply of gas. In case of any shortfall, Company has back up of electricity supply from the KE grid.
- So far, LOTCHEM is importing raw materials without any impediments.
- Raw materials of the company are procured from Asia and Middle East.
- Fluctuation in the exchange rates as well as inflationary pressures dampened the demand outlook citing lack of or postponement of export orders. Furthermore, floods in southern parts of the country led to disruption of inland logistics, further antagonizing producer woes.
- PTA demand from the domestic market is expected to remain depressed which may also impact LOTCHEM sales in 4QCY22.
- Company's major shareholder, Lotte Chemical Corporation (South Korea), is in the process of selling its 75% shareholding in the Company. Three parties (ICI Pakistan Limited, Novatex Limited and Asiapak Investments Limited) are interested in acquiring this 75% stake.

Outlook

- We are positive towards LOTCHEM as PTA-PX margins are well above breakeven level of US\$92/ton.

Fig 1: LOTCHEM - 3QCY22 Financial Highlights

Rs (mn)	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Net sales	29,555	17,299	71%	0%	79,513	48,221	65%
COGS	24,750	15,905	56%	5%	64,702	42,915	51%
Gross profit	4,805	1,394	245%	-20%	14,811	5,306	179%
Distribution & marketing expenses	41	28	47%	18%	114	86	33%
Administrative expenses	176	124	43%	39%	428	351	22%
Other Expenses	315	98	223%	-20%	983	436	125%
Other Income	596	290	105%	30%	1,429	877	63%
Finance cost	795	577	38%	10%	1,792	778	130%
PBT	4,074	859	375%	-21%	12,924	4,532	185%
Tax	1,370	231	494%	-43%	4,818	1,302	270%
PAT	2,704	628	331%	-3%	8,106	3,230	151%
EPS	1.79	0.41			5.35	2.13	
Gross Margin	16.3%	8.1%			18.6%	11.0%	
Net Margin	9.1%	3.6%			10.2%	6.7%	
Effective Tax Rate	33.6%	26.9%			37.3%	28.7%	

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

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Recommendations definitions

If

Expected return >+10%

Outperform.

Expected return from -10% to +10%

Neutral.

Expected return <-10%

Underperform.