

PAKISTAN



FSL Chemical Universe 4QCY22E Profitability Highlights

	4QCY22E	4QCY21	YoY	QoQ
EPCL*	1.8	3.5	-48%	-3%
LOTCEM	2.3	0.9	148%	29%

* Diluted EPS

	CY22E	CY21	YoY
EPCL*	9.6	12.1	-21%
LOTCEM	7.7	3.1	150%

* Diluted EPS

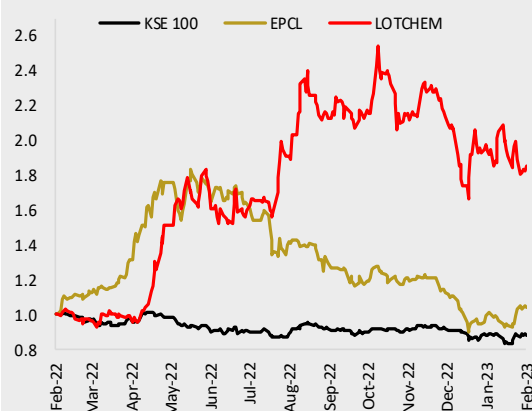
4QCY22E

Dividend Expectation (Rs/sh)

EPCL	2.2
LOTCEM	3.7

Source: Company accounts, Foundation Research, Feb 2023

FSL Chemical Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, Feb 2023

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Pakistan Chemicals

Sector profitability to increase in 4QCY22 as LOTCEM to post higher profit

Event

Chemical sector profitability is expected to increase in 4QCY22 due to higher PTA-PX margins and higher Rupee depreciation of ~21.7% YoY. However, decline in PVC-Ethylene margins has dented profitability. We expect this would translate into EPCL posting diluted EPS of Rs1.8/sh in 4QCY22 (down 48/3% YoY/QoQ) and LOTCEM profitability would be Rs2.3/sh in 4QCY22 (up 148/29% YoY/QoQ).

Impact

Mixed trend in petrochemical margins during 4QCY22: Petrochemical sector has witnessed mixed trend in margins during 4QCY22 with PVC-Ethylene margins down by 66% YoY (↓19% QoQ) due to 49% YoY lower PVC prices amid only 16% YoY increase in Ethylene prices. Whereas, PTA-PX margins were up by 22% YoY (↑8% QoQ) during 4QCY22 given 11% YoY higher PTA prices amid only 8% increase in PX prices.

PVC prices declined by 49% YoY during 4QCY22 whereas Ethylene prices fell by 16% YoY during the same period. This has resulted in a decline of 66% YoY in PVC-Ethylene margins to US\$372/ton during 4QCY22. Sequentially, PVC prices declined by 14% and Ethylene prices were down by 9% during 4QCY22. This has translated into a fall of 19% QoQ in PVC-Ethylene margins.

PTA prices have gone up by 11% YoY during 4QCY22 amid increase in PX raw material prices of 8% YoY. This has translated into an increase of 22% YoY in PTA-PX margins to an average of US\$169/ton during 4QCY22. In QoQ analysis, PTA prices declined by 7% whereas PX prices were down by 10%. As a result, PTA-PX margins increased by 8% QoQ during the 4QCY22.

Chemical sector profitability to increase: FSL Chemical universe is expected to post profitability of Rs5.6bn in 4QCY22 (up 2% YoY) compared to Rs5.5bn in 4QCY21 given 2% YoY increase in sales and increase of 6% in EBIT amid higher other income due to increase in interest rates. Moreover, profitability is expected to increase by 15% sequentially on the back of lower exchange losses of LOTCEM in 4QCY22.

EPCL profitability to decline: EPCL is expected to post diluted EPS of Rs1.8 in 4QCY22 (down 48% YoY) versus Rs3.5 in 4QCY21 amid decline in PVC-Ethylene margin (down 66% YoY) and utilization of higher cost RLNG despite ~21.7% YoY depreciation of Rs-US\$ parity. Sequentially, profitability is expected to decline 3% amid 19% QoQ lower PVC-Ethylene margin.

LOTCEM to post EPS of Rs2.3: LOTCEM is expected to witness profitability of Rs2.3/sh (up 148% YoY) in 4QCY22 attributable to (1) 22% YoY higher PTA-PX margin, (2) ~21.7% YoY depreciation of avg. Rs-US\$ and (3) lower exchange losses. Sequentially, profitability would increase by 29% YoY given 8% QoQ incline in PTA-PX margin.

Outlook

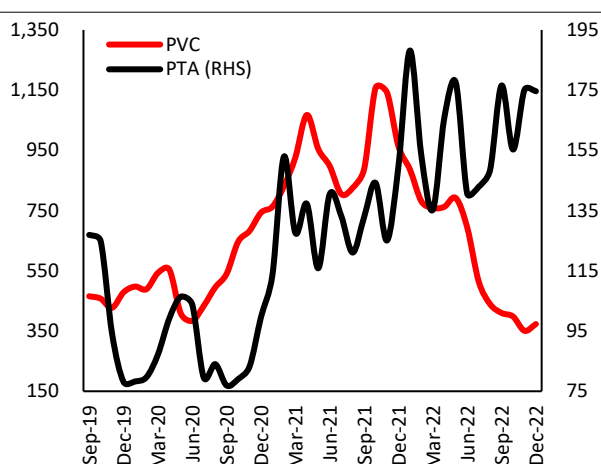
PVC-Ethylene Int'l margin is expected to remain range bound as PVC prices have declined from highs of CY21/CY22 amid easing of global supply shortages which bodes negatively for EPCL profitability. We have an underperform rating on LOTCEM as its receivables have increased by 2.6x YoY.

Fig 1: Chemical sector financial highlights 4QCY22E

Rs mn	4QCY22E	4QCY21	YoY	QoQ	CY22E	CY21	YoY
Net sales	40,311	39,643	2%	-13%	182,133	137,185	33%
Cost of sales	30,895	30,027	3%	-16%	137,741	105,568	30%
Gross profit	9,416	9,616	-2%	-4%	44,392	31,617	40%
Distribution & marketing expenses	170	183	-7%	0%	681	496	37%
Administrative expenses	462	360	28%	0%	1,679	1,174	43%
Other operating expenses	790	936	-16%	-41%	4,925	2,842	73%
Other operating income	1,075	457	135%	1%	3,807	2,298	66%
EBIT	9,069	8,594	6%	2%	40,913	29,403	39%
Finance Cost	1,003	697	44%	-39%	4,994	2,876	74%
Profit before taxation	8,066	7,897	2%	12%	35,920	26,527	35%
Taxation	2,355	2,274	4%	5%	12,762	7,266	76%
Profit after taxation	5,630	5,542	2%	15%	22,834	18,929	21%

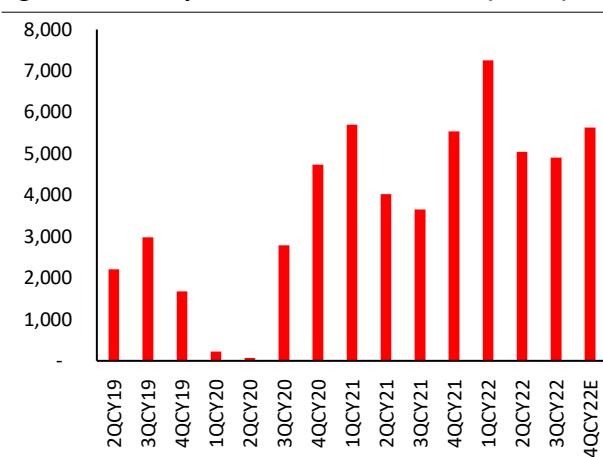
Source: Company Accounts, Foundation Research, Feb 2023

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



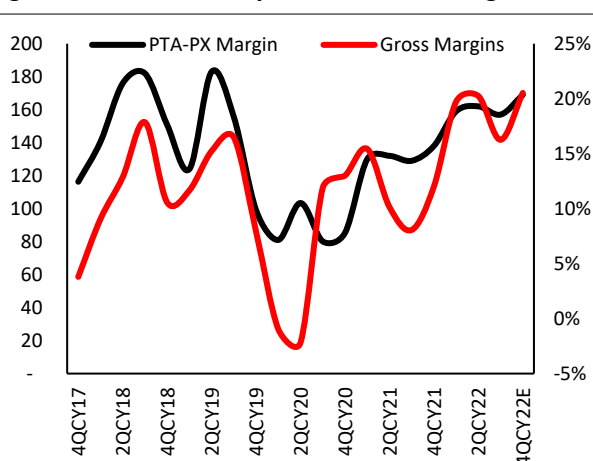
Source: Bloomberg, FSL Research, Feb 2023

Fig 3: Profitability of chemical sector to rise (Rs mn)



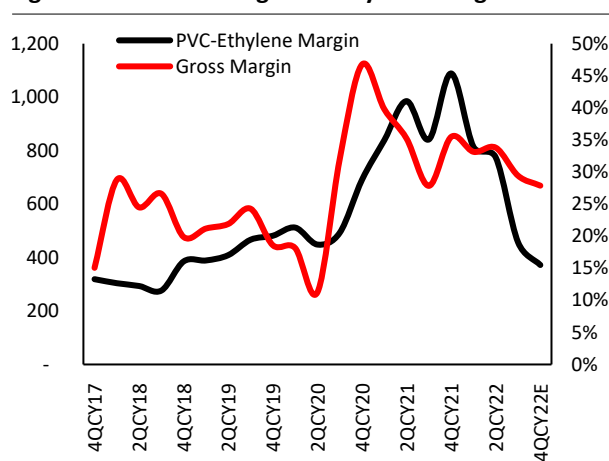
Source: Company accounts, FSL Research, Feb 2023

Fig 4: LOTCHEM GM in sync with PTA-PX margins



Source: Bloomberg, Comp Acc, FSL Research, Feb 2023

Fig 5: EPCL GM tracking PVC-Ethylene margins



Source: Bloomberg, Comp Acc, FSL Research, Feb 2023

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.