

Earning Review

EPCL: 4QCY22 EPS clocked in at Rs1.96, DPS Rs2.5

Event

- Engro Polymer & Chemicals Limited (EPCL PA) profitability clocked in at Rs2.4bn (Diluted EPS Rs1.96) in 4QCY22 against Rs4.7bn (Diluted EPS Rs3.88) in 4QCY21. This cumulated into profitability of Rs11.7bn (Diluted EPS Rs9.69) in CY22 compared to Rs15.1bn (Diluted EPS Rs12.49) in CY21.
- The Company also announced an interim dividend of Rs2.5/sh for ordinary shareholders taking CY22 payout to Rs12.5/sh. Furthermore, company announced dividend of Rs0.5/sh for preference shareholders for the quarter which took CY22 preference dividend to Rs1.72/sh.

Impact

- The company's profitability decreased by 50% YoY in 4QCY22 on the back of (1) 66% YoY lower PVC-Ethylene margin (avg. margin of US\$372/ton during 4QCY22) and (2) higher finance cost despite ~21.7% YoY depreciation of average Rs-US\$ exchange rate.
- Distribution expenses inclined by 15% YoY during 4QCY22 and were up 32% sequentially.
- Admin expenses were unchanged YoY and down 22% QoQ in 4QCY22.
- Other expenses decreased by 66% YoY during 4Q due to FX losses last year.
- Other income was down by 60% YoY during 4QCY22 due to 50% YoY decline in Cash and ST investments on Sep'30, 2022.
- Finance cost showed an incline of 77% YoY during 4Q given higher interest rates.
- Tax reversal of Rs585mn was recorded during 4QCY22. We await clarity from management in this front.

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. Company decision to purchase RLNG at OGRA notified prices from Nov'29, 2022 to Feb'28, 2023 as opposed to lower cost system gas due to its unavailability would also impinge on company's profitability during 1QCY23.

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
+92 21 3561 2290-94 Ext: 331

Fig 1: EPCL - 4QCY22 Financial Highlights

Rs (mn)	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Net sales	19,751	20,699	-5%	17%	82,060	70,020	17%
Gross profit	3,217	7,341	-56%	-35%	23,382	24,035	-3%
Distribution & marketing expenses	171	149	15%	32%	569	376	51%
Administrative expenses	221	221	0%	-22%	1,005	683	47%
Other Expenses	300	884	-66%	-71%	3,452	2,354	47%
Other Income	139	344	-60%	-70%	1,441	1,308	10%
Finance cost	884	501	77%	4%	3,083	1,902	62%
PBT	1,784	5,930	-70%	-43%	16,714	20,028	-17%
PAT	2,369	4,694	-50%	4%	11,710	15,103	-22%
EPS - Basic	2.61	5.16			12.88	16.61	
EPS - Diluted	1.96	3.88			9.69	12.49	
DPS - Ordinary	2.50	5.50			12.50	13.30	
DPS - Preference	0.50	0.27			1.72	0.81	
Gross Margin	16.3%	35.5%			28.5%	34.3%	
Net Margin	12.0%	22.7%			14.3%	21.6%	
Effective Tax Rate	-32.8%	20.8%			29.9%	24.6%	

Source: PSX, Company Accounts, Foundation Research, February 2023

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Recommendations definitions

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