Foundation Securities
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Foundation Alert

EPCL: 4QCY22 Analyst Briefing Takeaways

Event

- Engro Polymer and Chemical (EPCL PA) held its 4QCY22 analyst briefing today to discuss financial/operational performance and outlook of the company.

Impact

- During 4QCY22, profitability was affected by (1) sharp drop in PVC prices and Core Delta given worsening global macroeconomic and geopolitical developments, (2) an interim agreement with SSGC for supply of RLNG till 28th February 2023, (3) increase in cost of doing business given unprecedented devaluation and inflationary pressures and (4) supply chain disruptions resulting from frequent COVID-19 related lockdowns in China.
- International PVC prices declined sharply in the last quarter owing to a global demand slowdown on the back of rising inflation before rebounding slightly in December. In China, the market continued to remain impacted owing to the resurgence of COVID and zero-COVID policy by government. Lifting of lockdown towards the end of the year supported PVC prices.
- PVC prices are expected to remain stable as Indian demand continues to recover and Chinese COVID cases subside.
- Ethylene prices remained bearish, due to weakened demand on the back of a bearish economic outlook and ample supply. Ample supply availability in Asia was 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.
- Company recorded highest ever PVC sales of 241KT during CY22. PVC sales were 67KT during 4Q. Pipes and fittings remained major application of PVC with 57% market share followed by Film & Sheet with 14% market share.
- Company sold 28KT of Caustic liquid and flakes during 4Q.
- Company revenue declined by 5% YoY in 4QCY22 on the back of optimization in pricing strategy amid declining PVC prices.
- Decline in CY22 profit of 22% YoY is primarily attributable to (1) impact of super tax charge imposed by the government, (2) inflationary pressures, and (3) lower core delta.
- Company stated that given the ongoing economic uncertainty, they are facing unprecedented inflationary pressures coupled with volatility in PKR to USD parity, high fuel prices, and rising KIBOR rates.
- Management noted that issues with establishment of LCs given the forex situation will impact CAPEX and raw material delivery. They also mentioned that continued increase in cost of doing business would affect margins going forward.
- High Temperature Direct Chlorination (HTDC) and Hydrogen Peroxide project are on track for commissioning during 2HCY23.

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.

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.