

## Foundation Alert

### EPCL: 1QCY23 Analyst Briefing Takeaways

#### Event

- Engro Polymer and Chemical (EPCL PA) held its 1QCY23 analyst briefing today to discuss financial/operational performance and outlook of the company.

#### Impact

- During 1QCY23, profitability was affected by (1) worsening global macroeconomic and geopolitical developments, (2) sharp increase in cost of doing business given unprecedented devaluation and inflationary pressures and (3) plant operating on RLNG in Jan'23 and Feb'23
- PVC international prices witnessed an uptick in the initial two months of the quarter on the back of renewed demand and restocking activity in India. Prices then softened on the back of a hazy economic outlook, geopolitical turbulence, high volatility in international prices, slower than expected recovery in China, and an oversupply situation developing in India.
- PVC prices are expected to recover to healthy levels once the challenging global geopolitical climate improves, Chinese economy opens up and recessionary concerns subside.
- Ethylene prices saw soft demand during the Lunar New Year Holidays in China; however, supply crunches kept the upward pressure on prices during the quarter. A slight dip was observed near the end of the quarter owing to bearish crude prices
- Ethylene prices will remain impacted by crude oil prices and OPEC+ decisions
- PVC sales were 52KT during 1QCY23 versus 67/64KT in 4QCY22/1QCY22. Pipes and fittings remained major application of PVC with 53% market share followed by Film & Sheet with 17% market share.
- Company sold 14KT of Caustic liquid and flakes during 1QCY23 compared to 21/17KT during 4QCY22/1QCY22.
- The company recorded a revenue decrease of 22% YoY in 1QCY23 mainly because of lower prices but also because of lower sales volumes.
- Decline in YoY profit during 1QCY23 is primarily attributable to decreased topline, inflationary pressures, and 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 interest rates.
- Management noted that key focus is on ensuring safe and sustainable operations and completing on-going projects within communicated timelines. Whereas, rising interest rates and inflationary environment will likely continue to impact their customers. Company intends to pursue active management of the challenges with establishment of LCs given the forex situation and expects that continued increase in cost of doing business will affect margins.
- Company is endeavoring to complete the High Temperature Direct Chlorination (HTDC) and Hydrogen Peroxide projects during CY23.

#### 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 - 1QCY23 Financial Highlights

Rs (mn)	1QCY23	1QCY22	YoY	QoQ
Net sales	17,978	23,127	-22%	-9%
<b>Gross profit</b>	<b>3,591</b>	<b>7,665</b>	<b>-53%</b>	<b>12%</b>
Distribution & marketing expenses	142	150	-5%	-17%
Administrative expenses	274	224	22%	24%
Other Expenses	764	843	-9%	155%
Other Income	438	425	3%	216%
Finance cost	1,170	606	93%	32%
PBT	1,678	6,266	-73%	-6%
<b>PAT</b>	<b>1,189</b>	<b>4,721</b>	<b>-75%</b>	<b>-50%</b>
EPS - Basic	1.31	5.19		
EPS - Diluted	0.98	3.91		
DPS - Ordinary	1.00	5.00		
DPS - Preference	0.50	0.37		
Gross Margin	20.0%	33.1%		
Net Margin	6.6%	20.4%		
Effective Tax Rate	29.1%	24.7%		

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

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Ext 331**Important disclosures:**

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