

February 14, 2023

## Pakistan Chemical

### EPCL PA: 4QCY22 Analyst briefing takeaways

Engro Polymer & Chemical Limited has conducted its 4QCY22 analyst briefing to discuss financial results and future outlook. We have summarized key takeaways from the briefing.

- Company posted PAT of PKR2.1bn (EPS: PKR2.46) in 4QCY22 against PAT of PKR4.6bn (EPS: PKR5.16) reported in SPLY. The decrease in profitability is attributable to lower PVC-Ethylene core delta.
- International PVC prices declined amid global demand slowdown led by rising inflation and lockdown in China. However, prices have rebound slightly due to demand recovery from China after easing lockdown and some respite from US.
- Management commented company has recorded a tax reversal of 6% after favorable decision of Sindh High-Court regarding discriminative application of retrospective 10% super tax on CY21 earnings.
- PVC sales stood at 67kt during the quarter vs. 59kt in SPLY, up by ~13% YoY. Whereas, export sales stood at 7kt in 4QCY22, which took CY22 volumes to highest ever 241kt. Similarly, company recorded sales of ~76kt in Chlor Alkali segment during CY22.
- In 4QCY22, PVC core-delta was recorded at \$418/ton, which is expected to improve slightly as global demand is recovering from India and China.
- Company has successfully commissioned OVR project which is expected to improve plant's efficiency resulting in annualized saving of PKR150mn. Furthermore, Hydrogen Peroxide project is expected to achieve commissioning in CY23.
- After plant turnaround in Dec'22, company has started smooth operations from Jan'23. To note, company currently holds one month PVC inventory in hand due to plant turnaround.
- While commenting on gas pricing, management expects to procure RLNG till Feb'23. However, they expect to receive indigenous gas after Feb on revised prices of PKR1,200/mmbtu.
- On macro-economic front, company is facing issues regarding raw material imports and planned CAPEX due to LC restrictions.
- Future outlook seems a bit gloomy amid expected demand slowdown in local market due to economic turbulence. However, to mitigate the impact Management is trying to tap international markets for better exports, However, global markets are also witnessing a demand slowdown due to economic recession.

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Analyst certifications and important disclosures are in the end.

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- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

## Frequently Used Acronyms

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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