

Pakistan Chemicals

EPCL PA: Earnings Preview 1QCY23 – EPS is expected to clock in at PKR0.88

- EPCL is expected to post PAT of PKR0.79bn (EPS PKR0.88) vs. PKR4.7bn (EPS PKR5.19) in SPLY, down by 83% YoY. Decline in earnings is mainly attributable to lower PVC-Ethylene margins, clocked in at USD451/ton during the quarter as compared to USD827/ton in SPLY.
- Global PVC prices stood around USD900/ton, up by 8% QoQ, whereas Ethylene prices have increased by 2% QoQ, resulting in improved core delta by 15%. Therefore, we expect gross margins to improve by 7.8ppts sequentially to clock in at ~24%.
- On volumetric front, despite slow-down in local construction industry, we expect PVC volumes to decline by only ~8% QoQ, due to higher contribution expected by export sales.
- Other charges are expected to clock in at ~PKR2.4bn, led by exchange loss of PKR2.1bn which is due to 25% appreciation of USD against PKR QoQ.
- Finance cost is expected to clock in at 1.19bn due to 30% QoQ increase in debt levels and elevated interest rates, however, impact is expected to partially offset by higher other income which is attributable to 53% QoQ rise in liquid assets and better profit rates.
- Distribution and admin expenses are expected to increase by 16% and 9% QoQ, respectively.
- Along with result, we expect EPCL to announce interim cash dividend of ~PKR0.75/sh.

EPCL (PKR mn)	1QCY23	1QCY22	4QCY22	YoY	QoQ
Net sales	20,032	23,127	19,751	-13%	1%
COGS	15,202	15,462	16,536	-2%	-8%
Gross profit	4,830	7,665	3,215	-37%	50%
Gross margin %	24%	33%	16%		
S & D expense	200	150	173	33%	16%
Admin expense	240	224	221	7%	9%
Other expense	2,474	843	332	193%	645%
Other income	694	425	170	63%	308%
Finance cost	1,194	606	896	97%	33%
PBT	1,415	6,266	1,763	-77%	-20%
Taxation	467	1,545	(586)	-70%	NM
PAT	798	4,721	2,199	-83%	-64%
Effective tax Rate	33%	25%	-33%		
EPS	0.88	5.19	2.42	-83%	-64%
DPS	0.75	5.00	2.50		
Core Delta (\$/ton)	451	827	391	-45%	15%

Source: Company accounts, Insight research

LOTCHAM PA: Earnings Preview 1QCY23 – EPS is expected to clock in at PKR0.48

- Lotte Chemical is expected to post EPS of ~PKR0.48 in 1QCY23 vs. PKR1.73 in SPLY, down by ~72% YoY. Similarly, on QoQ basis earnings are expected to decline by 64%.
- Despite decline in PTA prices by 6% YoY and lower volumetric sales, topline is expected to clock in at PKR22.3bn, up by 10% YoY amid PKR devaluation by 47% YoY.
- International PTA prices declined by 4% QoQ, whereas PX prices witnessed an increase of 3% which is reflected in squeezed primary margins.
- Lower primary margins are expected to dent company's gross margins by 5.7ppts sequentially.
- Distribution and administrative expenses are expected to increase by 15% and 25% YoY, respectively, indicating inflationary pressures.
- Financial charges are expected to clock in at ~PKR1.2bn, led by exchange loss of PKR1.1bn which is due to 25% appreciation of USD against PKR QoQ.
- Other income is expected to rise sequentially due to hike in profit rates and higher liquid assets up by 55% QoQ.
- We don't expect LOTCHEM to announce any interim dividends along with result.

LOTCHEM (PKR mn)	1QCY23	1QCY22	4QCY22	YoY	QoQ
Net sales	22,330	20,332	20,752	10%	8%
Cost of sales	20,368	16,322	17,739	25%	15%
Gross profit	1,961	4,010	3,013	-51%	-35%
Gross margin %	8.8%	19.7%	14.5%		
Selling/distribution expenses	45	39	45	15%	0%
Administrative expenses	156	125	175	25%	-11%
Financial charges	1,254	277	161	353%	677%
Other income	712	376	411	90%	73%
Other charges	141	276	210	-49%	-33%
PBT	1,077	3,669	2,834	-71%	-62%
Taxation	356	1,054	821	-66%	-57%
PAT	722	2,615	2,013	-72%	-64%
Effective tax rate	33%	29%	29%		
EPS	0.48	1.73	1.33	-72%	-64%
DPS	-	-	2.00		
Core Delta (\$/ton)	116	131	164	-11%	-29%

Source: Company accounts, Insight research

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

Frequently Used Acronyms

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

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