

November 21, 2023

Sector**CHEMICAL**Chase Researchresearch@chasesecurities.com
+92-21-35293054-60Symbol: **LOTCHEM**Current Price: **PKR 28.00**Market Cap (PKR bn): **42.39**Total Shares (mn): **1,514.21**Free Float (mn): **227.13**52 Week High: **PKR 31.54**52 Week Low: **PKR 21.80****Lotte Chemical Pakistan Limited
(LOTCHEM)**

The company posted PAT of PKR1.9bn (EPS: PKR1.31/sh) during 3QCY23, portraying a decline of 27% YoY, compared to PKR2.7bn (EPS: PKR1.79/sh) in SPLY.

Topline of the company reached at PKR23.6bn, marking a decline of 20% YoY in 3QCY23. However, the revenue increased by 44% QoQ primarily due to the resumption of plant operations in 3Q following a closure in 2Q due to raw material shortages. The YoY decline is due to reduced PTA sales volume stemming from weak demand in the polyester industry.

Domestic sales volume dropped by 35% YoY to 82,427 MT. The decline was attributed to decreased demand and the prior quarter's increased PTA imports by downstream entities. Similarly, production volume also witnessed a drop of 17% YoY to 105,395 MT, derived by adjusting the plant operating rate to align with sales.

During the quarter, Crude Oil (WTI) prices experienced a significant surge driven by extended OPEC+ production cuts. The average price for the quarter reached USD81.84 per barrel, reflecting a notable 10.6% increase compared to the previous quarter.

The Paraxylene (PX) market followed an upward trend in 3QCY23, followed by the increased Crude Oil prices. The market was characterized by robust demand in the downstream PTA sector and a constrained prompt supply. Reflecting this trend, the average PX price for the quarter rose to USD1,072.41/MT, indicating a 4% increase from the preceding quarter.

Additionally, the PX-Naphtha spread averaged USD426/MT. PTA prices aligned with the PX market, benefiting from high operating rates in China. Despite robust operations, the PTA-PX spread remained below breakeven levels. The average PTA price for the quarter was USD796.17/MT.

The total local demand for PTA is around 697K MT, while the peak demand stands at 730K MT, respectively.

The management highlighted that the recent substantial rise in gas prices poses a challenge for the company, as it directly affects the company's' bottom-line.

Moving Forward, the managements expects that, crude Oil (WTI) prices expected to rise in Q4 due to a continuing supply deficit from OPEC+ and Russian export restrictions, alongside changing consumer spending preferences. Whereas, International Paraxylene (PX) prices are also anticipated to increase next quarter supported by Crude Oil prices, but potential limited upside due to a seasonal pause in downstream PTA production.

Domestic Polyester market likely to face challenges due to macro-economic issues, lower seasonal demand, high inflation, and difficulties in the export market.

PKR "mn	9MCY23	9MCY22	YoY	3QCY23	3QCY22	YoY
Revenue	62,135	79,513	-22%	23,593	29,555	-20%
Cost of sales	52,279	64,702	-19%	20,176	24,750	-18%
Gross profit	9,856	14,811	-33%	3,417	4,805	-29%
Gross margins	16%	19%		14%	16%	
Distribution cost	126	114	11%	46	41	14%
Administrative expenses	469	428	10%	156	176	-11%
Other charges	691	983	-30%	233	315	-26%
Other income	1,884	1,429	32%	700	596	18%
Profit from operations	10,454	14,716	-29%	3,682	4,869	-24%
Finance cost	1,362	1,792	-24%	467	795	-41%
Profit before taxation	9,092	12,924	-30%	3,215	4,074	-21%
Taxation	4,251	4,818	-12%	1,228	1,370	-10%
Effective tax rate	47%	37%		38%	34%	
Profit after taxation	4,840	8,106	-40%	1,987	2,704	-27%
EPS	3.20	5.35	-40%	1.31	1.79	-27%

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