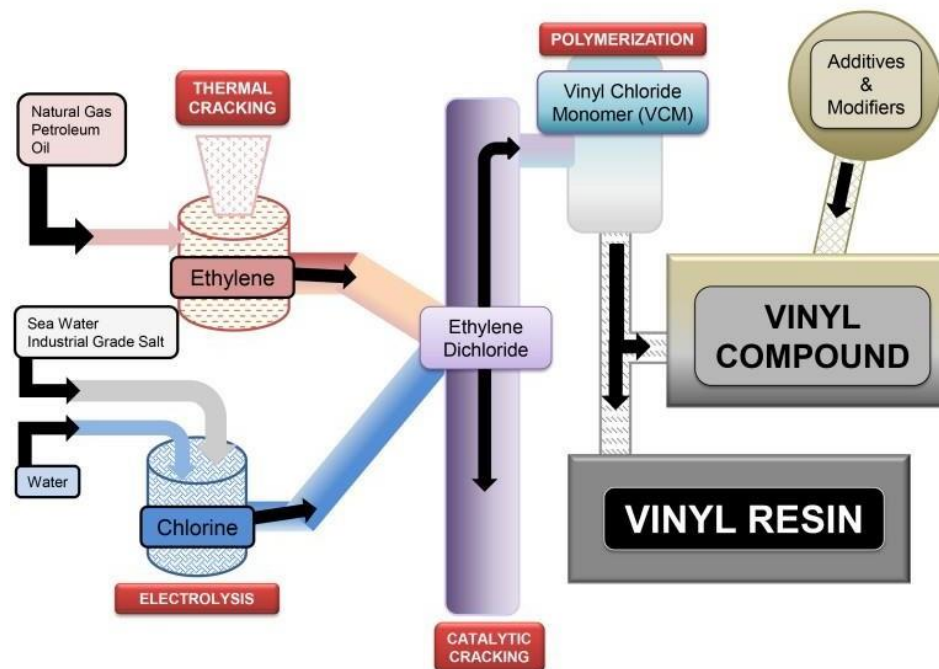


# Chemical | Result Preview | 1QCY23

Earnings to decline by 35% QoQ



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## Earnings to decline by 35% QoQ in 1QCY23

April 12, 2023

IIS Chemical Universe is expected to post profitability of PKR 2.9bn in 1QCY23, down by 35% QoQ. The decline in earnings is led by expected downturn in volumetric sales of PVC and PTA as well as decline in PTA-Px margin. Pakistan's manufacturing industry is facing severe challenges in the shape of raw material unavailability, slowdown in the economy, and high interest rates. The two key industries for PVC and PTA are construction and textile, both of which are witnessing a slowdown. Cement dispatches have declined by 18% YoY to 33.6mn tons in 9MFY23, while textile production has also been impacted.

### Lotte Chemical Pakistan Limited (LOTCHEM)

We estimate LOTCHEM to post profitability of PKR 956mn (EPS: PKR 0.6), plummeting by 63% QoQ owing to decline in PTA-Px margin and lower expected volumetric sales. To note, the company shut down its plant on Mar 15th, 2023 indefinitely owing to scarcity of raw materials amid import compression.

Subsequently, topline of the company is expected to arrive at PKR 22.8bn, up 12% QoQ despite 1% QoQ decline in volumes as the company being the sole manufacturer of PTA in the country benefits from PKR devaluation. The improvement in topline will be offset by the deteriorating PTA-Px margin which came down to USD 117/ton (-29% QoQ), motivated by 2% decline in PTA price amid slowdown in global economy and 4% increase in Px price. As a result, gross margin is expected to clock-in at 13% (-1.6 ppt QoQ).

Other income of the company is expected to enhance to PKR 614mn amid increasing deposit rates and improvement of liquid assets of the company. Finance cost which includes exchange losses, is expected to surge by 7x QoQ to PKR 1.8bn owing to sharp devaluation of PKR during the quarter (-20%). Lastly, we do not expect any cash dividend during the quarter.

#### IIS Chemicals | Estimates | 1QCY23

EPS	1QCY23	4QCY22	QoQ	1QCY22	YoY	DPS
EPCL	2.00	2.52	-21%	5.07	-61%	2.0
LOTCHEM	0.63	1.33	-55%	1.73	-66%	-

Source: Company Accounts, IIS Research

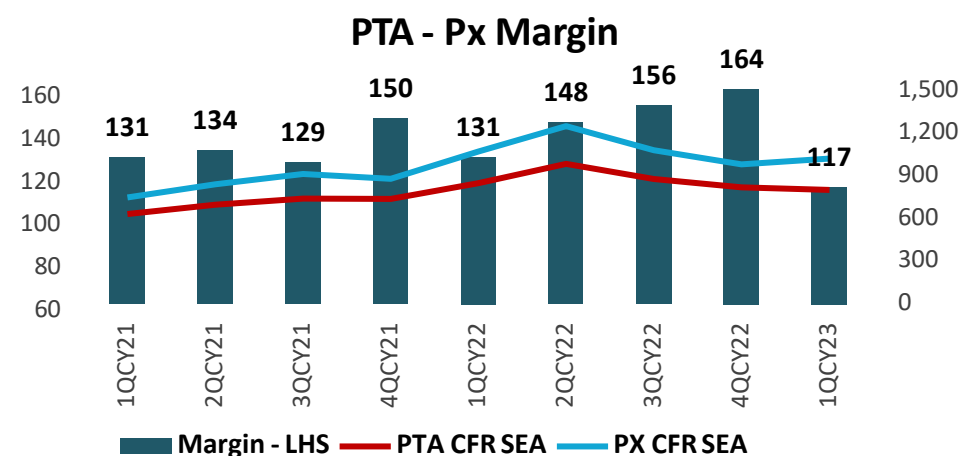
#### IIS Chemicals | Estimates | 1QCY23

PKR'mn	1QCY23	4QCY22	QoQ	1QCY22	YoY
Sales	44,023	40,503	9%	43,458	1%
Gross Profit	8,532	6,230	37%	11,674	-27%
Profit before Tax	4,276	4,618	-7%	9,935	-57%
Profit after Tax	2,865	4,381	-35%	7,336	-61%

Source: Company Accounts, IIS Research

#### LOTCHEM Financial Snapshot - 1QCY23

Income Statement PKR'mn	1QCY23	4QCY22	QoQ	1QCY22	YoY
Net Sales	22,773	20,332	12%	20,752	10%
Cost of Sales	19,833	16,322	22%	17,739	12%
<b>Gross Profit</b>	<b>2,940</b>	<b>4,010</b>	<b>-27%</b>	<b>3,013</b>	<b>-2%</b>
<b>Operating Profit</b>	<b>2,758</b>	<b>3,846</b>	<b>-28%</b>	<b>2,794</b>	<b>-1%</b>
Other income	614	376	63%	411	49%
<b>EBIT</b>	<b>3,264</b>	<b>3,946</b>	<b>-17%</b>	<b>2,995</b>	<b>9%</b>
Finance Cost	1,837	277	7x	161	11x
<b>PBT</b>	<b>1,427</b>	<b>3,669</b>	<b>-61%</b>	<b>2,834</b>	<b>-50%</b>
<b>PAT</b>	<b>956</b>	<b>2,615</b>	<b>-63%</b>	<b>2,013</b>	<b>-52%</b>



## EPCL: Earnings down 21% amid gas price hike and demand slowdown April 12, 2023

### Engro Polymer & Chemicals Limited

We estimate EPCL to post PAT of PKR 1.8bn (EPS: PKR 2.0) in 1QCY23, registering a decline of 20% QoQ. PVC sales volumes are expected to decline by 7% YoY owing to subdued activity in the construction sector which is evident in cement dispatches which declined by 11% YoY in 1QCY23. Another major contributor in the compression of profitability is the increased fuel cost. To note, the company entered into an agreement with SSGC for the supply of RLNG till Feb'23 which averaged ~PKR 3,500/mmbtu as against PKR 1,200/mmbtu of indigenous gas.

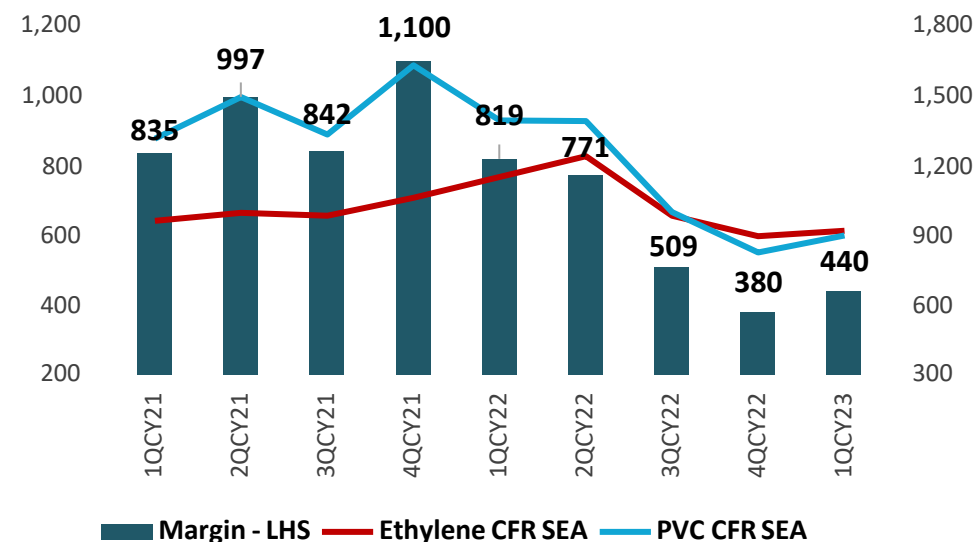
The topline of the company is expected to arrive at PKR 21.3bn, up 8% QoQ despite decline in volumetric sales owing to PKR devaluation. Some breather might also be provided by PVC-Ethylene core delta which increased to USD 440/ton (+16% QoQ) on hopes of gradual recovery of economic activity in China and fading fears of global recession, inventory gains and the company charging premium in the domestic market amid dearth of imported product. Gross margin is likely to clock-in at 26.7% v/s 16.3% in 4QCY22.

The upsurge in exchange losses to PKR 1.6bn owing to steep PKR devaluation (-20%) is likely to result in operating expenses jumping to 2.03bn (7x). Other income, is expected to arrive at PKR 603bn, amid elevated deposit rates and increasing liquid assets. We also expect the company to pay dividend of PKR 2.0/share.

#### EPCL Financial Snapshot - 1QCY23

Income Statement (PKR'mn)	1QCY23	4QCY22	QoQ	1QCY22	YoY
Net Sales	21,250	19,751	8%	23,127	-8%
Cost of Sales	15,570	16,534	-6%	15,462	1%
<b>Gross Profit</b>	<b>5,679</b>	<b>3,217</b>	<b>77%</b>	<b>7,665</b>	<b>-26%</b>
<b>Operating Profit</b>	<b>5,213</b>	<b>2,829</b>	<b>84%</b>	<b>7,290</b>	<b>-28%</b>
Other operating expenses	2,032	300	7x	843	141%
Other income	603	139	335%	425	42%
<b>EBIT</b>	<b>3,784</b>	<b>2,668</b>	<b>42%</b>	<b>6,872</b>	<b>-45%</b>
Finance Cost	854	884	-3%	606	41%
<b>EBT</b>	<b>2,930</b>	<b>1,784</b>	<b>64%</b>	<b>6,266</b>	<b>-53%</b>
<b>PAT</b>	<b>1,963</b>	<b>2,369</b>	<b>-17%</b>	<b>4,721</b>	<b>-58%</b>
<b>PAT - common shareholders</b>	<b>1,819</b>	<b>2,288</b>	<b>-20%</b>	<b>4,610</b>	<b>-61%</b>

#### PVC – Ethylene Core Delta



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Total Return > 15%	BUY
Total Return > -10% & <=15%	HOLD
Total Return <-10%	SELL

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To arrive at our period end target prices, IISPL uses different valuation methodologies including:

Discounted cash flow (DCF, DDM)

Relative Valuation (P/E, P/B, P/Setc.)

Equity & Asset return based methodologies (EVA, Residual Income etc.)

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