

EPCL - 3QCY21 EPS expected at PKR 3.50; Payout at PKR 1.00

- EPCL is scheduled to hold its board meeting on 15th Oct, 2021 to consider the financial results for 3QCY21. We expect profit after tax for 3QCY21 to increase 0.7x YoY to PKR 3.2bn (EPS PKR 3.50/share) taking 9MCY21 profit after tax to PKR 10.4bn (PKR 11.49/share).
- Along with the results, the company is also expected to declare an interim cash dividend of PKR 1.00/share, taking cumulative dividend for 9M to PKR 8.8/ share.
- 3QCY21 sales are likely to increase 37% YoY to PKR 13.8bn. The increase in revenue is primarily attributable to higher PVC prices and strong volumes enjoyed by EPCL after commissioning of PVC plant and VCM debottlenecking.
- PVC Margins:** During 3QCY21, average PVC-Ethylene spread clocked in at USD 858/ton as against USD 494/ton, up by 73% YoY. For 3QCY21, PVC prices increased by 10%YoY, however, the average PVC-Ethylene margins declined by 15% YoY due to higher oil prices. On another news, cut in power consumption in China announced in the last week of Sept-21 will also have a partial impact on 3Q results but more visibility can be expected in the next quarter.
- Caustic Soda:** Caustic Soda prices remained flat on QoQ basis but increased by 21%YoY in 3QCY21, which coupled with ~8% PKR depreciation in 3Q will positively impact EPCL's caustic soda sales.
- Cost of sales are likely to increase by 21% YoY to PKR 8.3bn due to increased raw material consumed. However, the lesser pace hike in the cost of sales versus the sales will lead to margins accretion of 6pp to 41% during 3QCY21. For 9MCY21, the gross margins are likely to clock in at 38%, up 16pp YoY.
- Finance cost is also to remain high during 3Q, up 18% YoY on the back of increased borrowing during the quarter. For 9MCY21, finance cost is expected to be lower due to lower mark-up on YoY basis.
- We maintain 'BUY' stance on EPCL, with our Jun-22 price target (PT) of PKR 79/share, indicating an upside of 43% along with a dividend yield of 5%.

Key Data

PSX Ticker	EPCL
Target Price (PKR)	79
Current Price (PKR)	55.27
Upside/ (Downside) (%)	43%
Dividend Yield (%)	5%
Total Return (%)	48%
12-month High (PKR)	65.45
12-month Low (PKR)	39.30
Outstanding Shares (mn)	909
Market Cap (PKR mn)	50,236
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY20	3QCY21E	YoY	9MCY20	9MCY21E	YoY
Net Sales	10,057	13,821	37%	22,932	44,317	93%
Cost of Sales	6,840	8,261	21%	17,892	27,303	53%
Gross Profit	3,217	5,560	73%	5,039	17,013	2.4x
Distri. & Admin. Exp.	210	259	23%	570	764	34%
Other Income	243	322	32%	1,014	919	-9%
Other Charges	103	606	4.9x	743	1,317	0.8x
Finance Cost	454	534	18%	1,821	1,449	-20%
Profit Before Tax	2,694	4,483	0.7x	2,920	14,403	3.9x
Taxation	813	1,300	0.6x	817	3,955	3.8x
Net Income	1,881	3,183	0.7x	2,103	10,448	4.0x
EPS	2.07	3.50	0.7x	2.31	11.49	4.0x
DPS	0.00	1.00	-	0.00	8.80	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	6.22	4.07	6.30	15.28	7.23	7.84
EPS Growth	112%	-35%	55%	142%	-53%	8%
DPS	1.10	0.80	1.25	9.25	3.00	3.25
P/E	8.88	13.59	8.77	3.62	7.64	7.05
Dividend Yield	2%	1%	2%	17%	5%	6%
EV/EBITDA	5.51	8.35	6.09	2.77	4.33	3.72
P/B	2.61	2.83	1.92	1.59	1.42	1.27
ROE	40%	21%	26%	48%	20%	19%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Engro Polymer & Chemicals Ltd (EPCL) has been computed using Free cash flow to equity (FCFF) method. We have used a risk-free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 79/share. Our price target indicates an upside of 43% along with a dividend yield of 5%. Our investment case is based on 1) healthy PVC-Ethylene margins, 2) Commissioning of new plants adding to capacity, 3) Diversification strategy to enter Hydrogen Peroxide market.

Risks

Key risks to our investment thesis include 1) earlier than expected reduction in PVC-ethylene spread, 2) saturation of Hydrogen-peroxide market 3) caustic soda market remaining flattish.

Company Description

Engro Polymer & Chemicals Ltd. (EPCL) is engaged in the manufacturing of PVC resin, chlor-alkali products like Caustic Soda, Sodium Hypochlorite and Hydrochloric Acid. EPCL sells, markets and distributes PVC under the brand name "SABZ". It is further exploring other avenues such as Hydrogen Peroxide.

Financial Highlights - EPCL

Income Statement (PKR mn)						
	CY18	CY19	CY20	CY21E	CY22F	CY23F
Net sales	35,272	37,837	35,331	58,562	44,514	47,626
Cost of sales	26,536	29,731	24,382	35,595	31,642	34,293
Gross Profit	8,736	8,106	10,949	22,967	12,872	13,333
SG & A	2,044	962	845	1,025	850	866
Operating Profit	6,692	7,144	10,105	21,942	12,022	12,467
Other income	1,249	930	1,180	1,241	1,136	1,161
Other charges	872	1,241	859	1,941	1,655	1,580
Finance cost	606	1,794	2,191	1,995	2,246	2,009
Profit before tax	6,463	5,039	8,234	19,247	9,257	10,039
Taxation	1,533	1,343	2,504	5,360	2,685	2,911
Profit after tax	4,930	3,696	5,730	13,887	6,573	7,128

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18	CY19	CY20	CY21E	CY22F	CY23F
PPE	19,398	31,433	37,614	40,520	41,112	38,704
Non-Current Assets	1,065	710	192	191	8,436	7,098
Current assets	16,434	17,650	24,382	36,963	38,355	38,746
Total Assets	36,023	57,519	69,094	83,946	86,479	85,117
Non-Current liabilities	7,890	23,933	27,579	33,861	32,523	27,001
Current liabilities	11,337	15,810	15,388	18,479	18,505	18,490
Total Liabilities	19,228	39,743	42,968	52,340	51,028	45,491
Equity	16,796	17,776	26,126	31,606	35,452	39,626
Total Equity & liabilities	36,024	57,519	69,094	83,946	86,479	85,117

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18E	CY19F	CY20F	CY21E	CY22F	CY23F
Net Income	4,930	3,696	5,730	13,887	6,573	7,128
Non-cash Charges	4,798	(8,147)	(884)	5,273	3,052	3,721
Operating Cash flows	9,728	(4,451)	4,846	19,160	9,625	10,849
FCFF	5,843	(19,372)	(1,113)	14,885	7,351	11,135
Net borrowings	(1,250)	15,035	172	7,084	675	(5,954)
FCFE	4,131	(5,652)	(2,466)	20,530	6,431	3,755
Net change in cash	679	(570)	154	12,123	3,704	801
Closing cash	1,362	792	946	13,068	16,772	17,573

Source: Company Accounts, Akseer Research

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Valuation Methodology

To arrive at our 12-months Price Target, the Akseer Research uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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