

## Engro Polymer & Chemicals Ltd

### Key Takeaways

PSX: EPCL    Bloomberg: EPCL: PA    Reuters: EPCL:PSX

Pakistan Research

### EPCL: 3QCY21 Analyst Briefing Key Takeaways

- Engro Polymer & Chemicals Ltd held analyst briefing today to discuss its 3QCY21 financial performance and industry's outlook. The company reported consolidated net earnings of PKR 3.42/share, up 65% YoY, taking 9MCY21 net earnings to PKR 11.41/share, up by 3.9x YoY compared to PKR 2.31/share in the same period last year. The company also announced an interim cash dividend of PKR 3.00/share, in addition to PKR 7.80/share already announced during the year.
- With regards to 3QCY21 sales, the company reported 56k tons of local sales in PVC and 15k tons in caustic soda segment. Due to favourable opportunity, the company also exported 8k tons of PVC, 2k tons of caustic liquid and 0.2K ton of caustic flakes during 3QCY21.
- The company reported another successful quarter with highest ever market share for PVC at 94% vs. 64% during same period last year. However, the market share for caustic soda declined to 30% in 3Q from 33% by end of June-21 mainly due to plant turnaround in August which caused supply disruptions. The turnaround also led to reduction in GP margins for 3QCY21 by 7pps on QoQ basis to 28%.
- The company attributed higher volumetric growth to its efficient plant system and higher PVC prices.
- Significant hike in other charges, up by 6.7x YoY during 3QCY21 is due to higher production which leads to increased expenses in WPPF, WWF and donations etc.
- The company does not foresee any significant hike in finance cost in the coming months as it has availed TERF facility.
- The management believes that PVC prices will continue showing bullish trend in imminent future primarily due to China's decision on power cut and strong demand pickup in India due to easing of lockdowns. Ethylene prices, will however, be subject to global crude oil production which will impact prices.
- As per management, core delta was recorded at USD 905/ton during 3QCY21 and USD 1,022/ton on YTD basis.
- The company views global demand to remain firm despite historical high PVC prices where it has been able to strongly withstand and increase its market share through reliable supply-chain network, better pricing and company positioning.
- We have a 'BUY' rating on the scrip with a June-22 price target of PKR 79/ share, implying an upside of 36% including a dividend yield of 5%.

#### Key Data

PSX Ticker	EPCL
Target Price (PKR)	79
Current Price (PKR)	58
Upside/(Downside) (%)	36%
Dividend Yield (%)	5%
Total Return (%)	41%
12-month High (PKR)	65.45
12-month Low (PKR)	39.30
Outstanding Shares (mn)	909
Market Cap (PKR mn)	52,608
Year End	December

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 36% 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	64,268	44,514	47,626
Cost of sales	26,536	29,731	24,382	40,938	31,642	34,293
<b>Gross Profit</b>	<b>8,736</b>	<b>8,106</b>	<b>10,949</b>	<b>23,330</b>	<b>12,872</b>	<b>13,333</b>
SG & A	2,044	962	845	940	850	866
<b>Operating Profit</b>	<b>6,692</b>	<b>7,144</b>	<b>10,105</b>	<b>22,390</b>	<b>12,022</b>	<b>12,467</b>
Other income	1,249	930	1,180	1,343	1,136	1,161
Other charges	872	1,241	859	2,312	1,655	1,580
Finance cost	606	1,794	2,191	1,955	2,246	2,009
<b>Profit before tax</b>	<b>6,463</b>	<b>5,039</b>	<b>8,234</b>	<b>19,465</b>	<b>9,257</b>	<b>10,039</b>
Taxation	1,533	1,343	2,504	5,027	2,685	2,911
<b>Profit after tax</b>	<b>4,930</b>	<b>3,696</b>	<b>5,730</b>	<b>14,439</b>	<b>6,573</b>	<b>7,128</b>

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	39,036	38,679	39,070
<b>Total Assets</b>	<b>36,023</b>	<b>57,519</b>	<b>69,094</b>	<b>86,019</b>	<b>86,803</b>	<b>85,441</b>
Non-Current liabilities	7,890	23,933	27,579	33,861	32,523	27,001
Current liabilities	11,337	15,810	15,388	20,227	18,505	18,490
<b>Total Liabilities</b>	<b>19,228</b>	<b>39,743</b>	<b>42,968</b>	<b>54,089</b>	<b>51,028</b>	<b>45,491</b>
Equity	16,796	17,776	26,126	31,930	35,776	39,950
<b>Total Equity &amp; liabilities</b>	<b>36,024</b>	<b>57,519</b>	<b>69,094</b>	<b>86,019</b>	<b>86,803</b>	<b>85,441</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18E	CY19F	CY20F	CY21E	CY22F	CY23F
Net Income	4,930	3,696	5,730	14,439	6,573	7,128
Non-cash Charges	4,798	(8,147)	(884)	5,704	2,622	3,721
<b>Operating Cash flows</b>	<b>9,728</b>	<b>(4,451)</b>	<b>4,846</b>	<b>20,142</b>	<b>9,194</b>	<b>10,849</b>
<b>FCFF</b>	<b>5,843</b>	<b>(19,372)</b>	<b>(1,113)</b>	<b>15,879</b>	<b>6,920</b>	<b>11,135</b>
Net borrowings	(1,250)	15,035	172	7,084	675	(5,954)
<b>FCFE</b>	<b>4,131</b>	<b>(5,652)</b>	<b>(2,466)</b>	<b>21,512</b>	<b>6,000</b>	<b>3,755</b>
Net change in cash	679	(570)	154	12,877	3,273	801
<b>Closing cash</b>	<b>1,362</b>	<b>792</b>	<b>946</b>	<b>13,823</b>	<b>17,097</b>	<b>17,898</b>

Source: Company Accounts, Akseer Research

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