EPCL | LOTCHEM

EPCL: Higher gas prices and decline in PVC margins to dent profitability

Engro Polymer and Chemicals Limited (EPCL) is scheduled to announce its 1QCY24 financial result on 19th Apr'24, where we project the earnings to arrive at PKR 871mn (EPS: PKR 0.96), down by 26% YoY. The decline in earnings is expected due to higher gas prices and subdued PVC margins (down by 30% YoY) during the quarter. Sales are expected to arrive at PKR 18.5bn, up by 3% YoY during 1QCY24. The gross margins of the company are expected to decline by 88ppts to 19.1% during 1QCY24. Other expenses are expected to decline by 74% YoY, which is mainly due to the absence of exchange loss in the outgoing quarter. Finance cost is projected to increase by 8% YoY to PKR 1,275mn due to higher interest rates and a surge in short-term borrowings. On a QoQ basis, the decline in earnings is expected due to the aforementioned reasons.

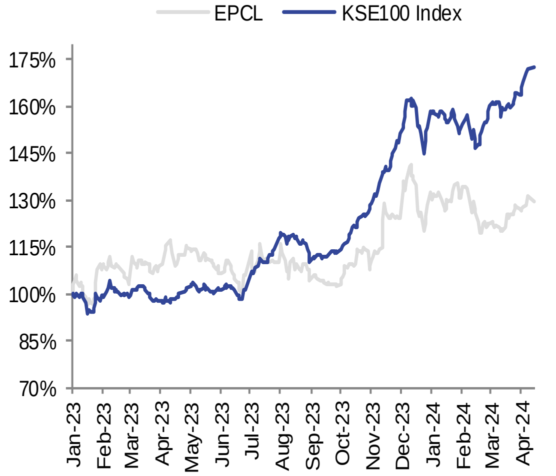
Exhibit: Financial Highlights (Consolidated)

(PKR mn)	1QCY24e	1QCY23a	YoY	4QCY23a	QoQ
Net Sales	18,499	17,978	3%	19,231	-4%
Gross Profit	3,533	3,591	-2%	5,167	-32%
Operating Profit	2,883	3,171	-9%	4,039	-29%
Other Expense	197	766	-74%	-73	nm
Other Income	17	444	-96%	399	-96%
Finance Cost	1,275	1,177	8%	250	411%
PAT	871	1,183	-26%	3,545	-75%
EPS (PKR)*	0.96	1.30		3.90	
DPS (PKR)	0.75	1.00		3.00	

Source (s): Company Financials, AHL Research, *@909mn shares

Last Closing	46.58
PSX Code	EPCL
Bloomberg Code	EPCL PA

Relative Performance



Source (s): PSX, AHL Research

LOTCHEM: Earnings to plunge by 88% YoY to settle at PKR 0.20/share

Lotte Chemical Pakistan (LOTCHEM) is slated to reveal its financial results for the 1QCY24 on 18th Apr'24. We expect that the company will report earnings of PKR 309mn (EPS: PKR 0.20) for 1QCY24, registering a hefty decline of 74% YoY. During 1QCY24, we foresee sales to experience a 33% YoY jump, due to higher volumetric sales as the plant remained operational throughout the quarter while a 26-day plant shutdown was observed in 4Q. In addition, the company's gross margins are expected to decline by 1,586 bps to 4.2% in 1QCY24. This decline in gross margins is primarily due to 18% YoY decline in international PTA margins and an increase in gas prices. Furthermore, the finance cost is expected to plummet by 81% YoY to clock in at PKR 141mn on account of the absence of exchange loss in 1QCY24.

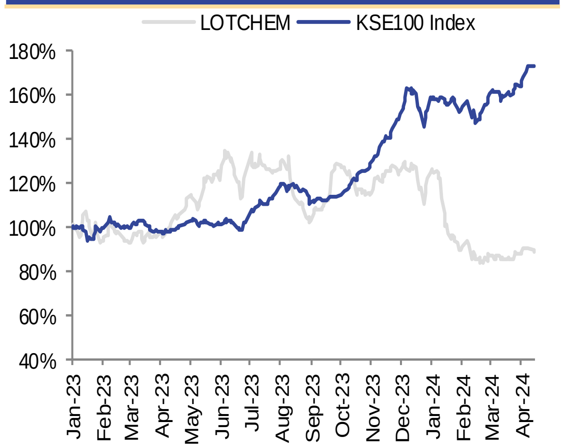
Exhibit: Financial Highlights

(PKR mn)	1QCY24e	1QCY23a	YoY	4QCY23a	QoQ
Net Sales	19,394	22,113	-12%	19,484	0%
Cost of Sales	18,578	17,674	5%	19,096	-3%
Gross Profit	816	4,439	-82%	388	110%
Gross Margins	***4.2%***	***20.1%***		***2.0%***	
Other Income	570	585	-3%	683	-17%
Other Expense	584	298	96%	235	148%
Finance Cost	141	756	-81%	178	-20%
PAT	309	2,542	-88%	237	30%
EPS (PKR)	0.20	1.68		0.16	
DPS (PKR)	-	2.00		1.00	

Source (s): Company Financials, AHL Research

Last Closing	18.39
PSX Code	LOTCHEM
Bloomberg Code	LOTCHEM PA

Relative Performance



Source (s): PSX, AHL Research

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk