Alfalah Securities

# Engro Polymer & Chemicals Ltd.

**PKR33.4 - SELL**

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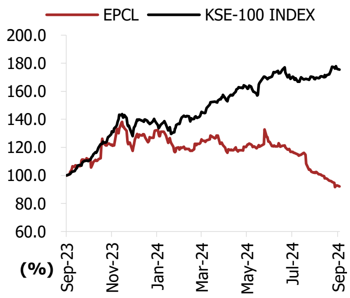
## Pakistan

**Chemical**

| | |
|---|---|
| Reuters | EPCL.PSX |
| Bloomberg | EPCL PA |
| Priced on 30 September 2024 | |
| KSE100 @ 81,114.2 | |
| 12M hi/lo | PKR50.1/33.2 |
| Jun-25 price target | PKR28.0 |
| ±% potential | -16.2% |
| Shares in issue | 908.9m |
| Free float | 25% |
| Mkt. Cap | USD109.3mn |
| 3M ADV | USD0.1mn |

**EPCL vs KSE100 performance**




Source: PSX, Bloomberg

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# No silver lining ahead

**Consistently low international margins, RLNG pricing, stable currency and no respite in construction demand, keeps our EPCL's case intact. We have also incorporated the impact of competitive pricing strategy by the company in CY24. Moreover, we have incorporated the updated pricing and currency data. Thus, we see a downside of ~16% (June-25 TP:28/sh) from hereon, with an expected EPS of PKR -3.5/-0.6/2.2/sh in CY24/25/26.**

**Competitive pricing strategy to capture volumes:** The company adopted a competitive pricing strategy in 2QCY24, which shows that they may have given some discounts to protect their market share. Thus, we incorporate absence of premiums (as is usually the case) and resulting higher volumes in remaining two quarters of CY24, further downgrading our earnings.

**PVC volumes to remain depressed:** Volumes are expected to remain subdued due to a contractionary budget, especially for the real estate sector. Moreover, purchasing power of masses remain restrained. We highlight that declining inflation and interest rates might provide some cushion to the depressed demand.

**International margins on the lower side:** Last reported PVC margins stand at USD333/ton. Average QTD margins are USD358/ton (historical average: USD427/ton). Asian and South-East Asian PVC demand remain lackluster, with no respite seen for the time being. Moreover, ethylene prices are trending down with oil prices, providing some support to the margins.

Recall that supply side factors had driven Asian PVC prices higher in second quarter of the year. We had highlighted in our previous report (dated 30th June 2024) that If SEA prices move up to converge to SA prices (due to a temporary delta created), EPCL's core delta could increase further. However, the prices actually declined further from those levels.

**RLNG pricing denting company margins:** As highlighted in our previous report, IMF has mandated an increase in gas prices for Captive Power Plants; putting them at par with RLNG rates by Jan 1, 2025. Note that even without complete RLNG pricing, EPCL saw a loss in 2QCY24 results. For rest of the year, we have assumed a mix of 60/40 indigenous gas/RLNG.

### Key valuation methodology

We have used a combination of two stage Gordon growth model and P/E ratio to value EPCL.

### Downside risks

- PVC core delta going down further
- More discounts to capture market share
- New projects (Hydrogen peroxide and HTDC) experiencing further delays

## Upside risks

- Increase in core delta
- Improvement in global PVC demand
- Uplift in local PVC demand, emanating from improving construction activities

## Recommendation

We maintain our stance on EPCL and reiterate "SELL" with June-25 price target of PKR28.0/sh, implying a downside of ~16%. We see the company posting an EPS of PKR-3.5/-0.6/2.2 in CY24/25/26.

Table 1

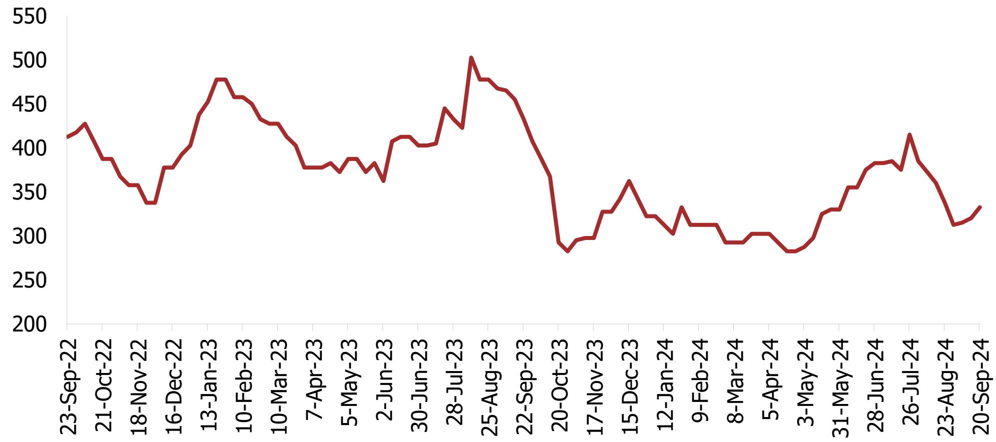
**Financial Snapshot**

| Year to 31 Dec | CY22A | CY23A | CY24E | CY25E | CY26E |
|---|---|---|---|---|---|
| EPS (PKR) - basic | 12.39 | 9.45 | (3.53) | (0.63) | 2.25 |
| DPS (PKR) | 12.50 | 6.00 | - | - | 2.03 |
| Dividend Yield | 37.4% | 18.0% | 0.0% | 0.0% | 6.1% |
| P/BV | 1.12 | 1.06 | 1.20 | 1.23 | 1.20 |
| BVPS | 29.9 | 31.5 | 27.8 | 27.2 | 27.9 |
| ROA | 14.5% | 10.6% | -3.6% | -0.7% | 2.7% |
| ROE | 41.0% | 33.1% | -11.2% | -2.3% | 8.2% |

Source: Company Accounts, Alfalah Research

Table 2

**PVC Margins over the last two years**




Source: Bloomberg, Alfalah Research

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