

PAKISTAN
MARKETMARKET
VISTA

EPCL & FFC - 1QCY21 Result Previews

EPCL to post 1QCY21 EPS of PkR4.24: Engro Polymer & Chemicals Ltd's (EPCL) board is scheduled to meet to today announce its financial result. We expect EPCL to post 1QCY21 NPAT of PkR3.90bn (EPS: PkR4.26), as compared to PkR193mn (EPS: PkR0.21) in the same period last year. To recall, EPCL's PVC production and sales took a hit in 1QCY20 due to plant disruption. On YoY basis, (i) 91%YoY increase in revenues, (ii) gross margins expected to clock in at 44% vs. 18% in 1QCY20 amid 63% YoY increase in PVC ethylene margins (1QCY21 average: US\$845/MT), and (iii) 44%YoY lower finance cost is expected to result in significant jump in earnings. On sequential basis, the earnings are expected to post a modest 7% increase. Key highlights would include: (i) 9%QoQ increase in revenues, (ii) decline in gross margins by 4ppt, (iii) 165%QoQ increase in other income to be offset by 17%QoQ higher finance cost. While 100K MT PVC line III has come online in early Mar'21, we have assumed PVC sales to remain at 51K MT, where VCM debottlenecking in next quarter would enable EPCL to unlock its PVC production capacity. Our TP of PkR72/sh implies an upside of 24% from last close – Buy!

EPCL: Earnings estimate

(Pkrmn)	1QCY21	1QCY20	YoY	4QCY20	QoQ
Net Sales	13,491	7,058	91.2%	12,400	8.8%
COGs	7,497	5,807	29.1%	6,490	15.5%
Gross Profit	5,995	1,251	379.1%	5,910	1.4%
Gross Margins	44.4%	17.7%		47.7%	
Other Income	245	446	-45.0%	92	164.9%
Finance Cost	433	768	-43.7%	370	16.7%
PBT	5,458	205	n.a	5,311	2.8%
Taxation	1,583	12	n.a	1,672	-5.3%
NPAT	3,875	193	n.a	3,639	6.5%
EPS (Pkr)	4.26	0.21	n.a	4.00	6.5%

Source: Company Report & AKD Research

FFC to post 44%YoY higher EPS of PkR4.81: Fauji Fertilizer Company Ltd (FFC) is expected to announce 44% YoY higher NPAT of PkR6.12bn (EPS: PkR4.81) in 1QCY21. The YoY increase earnings is majorly expected on the back of 81%YoY increase in other income, courtesy dividend announced by AKBL and, increase in short term investment in anticipation of commencement of GIDC payments as per Supreme Court's Aug'20 verdict. While revenues are expected to remain stagnant, we expect gross margins to increase 2ppt YoY due to lower gas rates as compared to the same period last year. On sequential basis, the earnings are expected to decline 13%, due to absence of re-measurement impact of GIDC liability of PkR4.94bn recorded in the previous quarter (netting off one off impairment loss of PkR1bn; EPS impact PkR2.22). The company is also expected to announce first interim cash dividend of PkR3.0/sh vs. PkR2.5/sh in the same period last year. Our TP of PkR131/sh implies a Buy stance at last close.

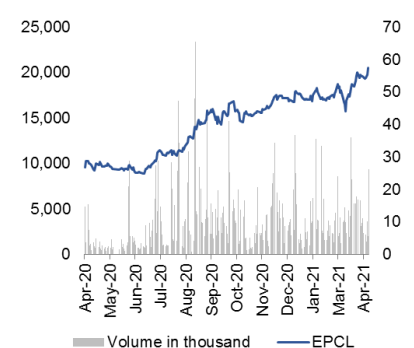
FFC: Earnings estimate

(Pkrmn)	1QCY21	1QCY20	YoY	4QCY20	QoQ
Sales	20,640	20,626	0.1%	29,237	-29.4%
COGS	12,738	13,136	-3.0%	20,814	-38.8%
Gross Profit	7,902	7,490	5.5%	8,424	-6.2%
Gross Margins	38.3%	36.3%		28.8%	
Finance cost	804	673	19.6%	468	72.0%
Other income	3,120	1,720	81.5%	1,471	112.1%
PBT	7,966	5,900	35.0%	10,353	-23.1%
Tax	1,847	1,638	12.8%	3,298	-44.0%
PAT	6,118	4,262	43.6%	7,055	-13.3%
EPS (Pkr)	4.81	3.35	43.6%	5.55	-13.3%
DPS (Pkr)	3.00	2.50	-	3.40	0.0%

Source: Company Report & AKD Research

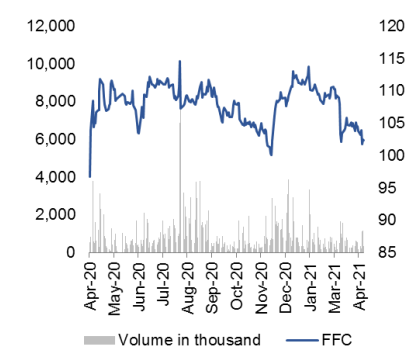
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EPCL: Price performance



Source: PSX & AKD Research

FFC: Price performance



Source: PSX & AKD Research



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- Discounted Cash Flow (DCF, DDM)
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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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