

## Engro Polymer & Chemicals...No wild goose chase!

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We initiate our coverage on EPCL. Our drive for coverage is due to recent noticeable increase in PVC-Ethylene spread. Our thrust of coverage is mainly restricted to PVC sales.

- PVC-Ethylene spread is on a 52-week high of \$ 480/ton;
- PVC prices have risen highest at \$ 990/ton in international market as per *Platts.com*;
- As per company books, the profitability is chiefly derived from PVC-Ethylene core delta in the absence of VCM chain;
- Financial charges impact to be minimal
- Continuation of goodies in 1QCY17 as well

EPCL @ 15.55  
52 Week Low 8.20  
52 Week High 16.59  
Total no. of shares 663.47mn  
Market Capitalization Rs10.33bn  
Enterprise value Rs14.2bn  
EV/sh Rs21.4/sh (last reported)  
Beta 1.08

### Premise...

The reason for the rise in spread is due to reduced production of PVC in China. We believe that EPCL will be the main beneficiary of the increase in spread as they are the main local suppliers of PVC in Pakistan, which is being absorbed in housing especially in northern part of the country.

There has been a demand locally for the PVC, considering, a construction boom and re-enacting of industries. As per recent developments, the gas prices may be reduced to PKR 200 mmbtu for the industries, as per ECC. This could have a favourable impact in shape of reduction in energy cost.

### 4Q could be game changer...

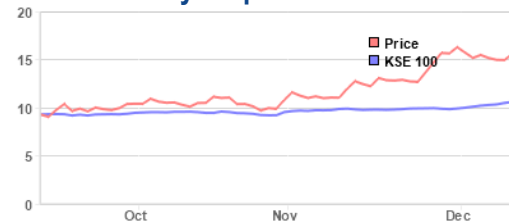
The fourth quarter may prove to be a game changer for EPCL, as per our estimations. Although, we expect a rise in sales, the major jump will come in gross margins wherein we expect these margins to increase in the range of 23% to 26%. In our model. We are assuming a gross margin of 23%, we believe company will be able to generate 4Q EPS of 0.75. Our forecasted CY16 EPS could be Re0.80/sh.

EPCL Profit & Loss			
Rs000	9MCY16	4QCY16E	CY16E
Sales	16,609,561	5,055,000	21,664,561
Gross Profit	2,030,539	1,162,650	3,193,189
Gross Margin	12%	23%	15%
Net Profit	31,848	496,420	528,268
EPS Rs/sh	0.05	0.75	0.80

Source: SCS Research

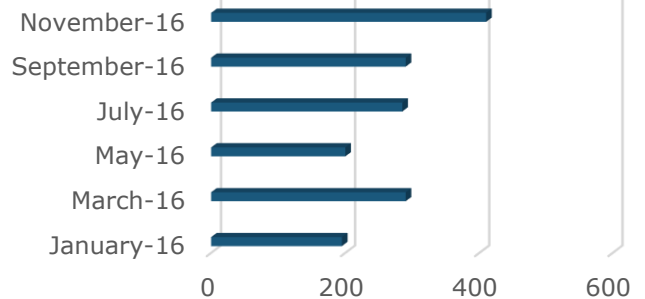
We expect this spread of PVC-Ethylene margins to continue in 1QCY17 as well.

### Recently outperformed KSE100



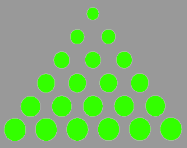
Source: Platts.com

### PVC-Ethylene Spread



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