

Lotte Chemical Pakistan Ltd: Recovery time – our view

We expect PTA-Px margin to increase from present level of USD 120/MT. We expect LOTCHEM to benefit in CY16 given lower crude prices as against preceding years where company remained in red.

At present main raw material paraxylene (Px) prices are hovering \$741/MT** thus showing a decreasing trend in general, giving room to LOTCHEM to make margins on final product i.e. PTA.

Our thrust of LOTCHEM is mainly due to the fact that cotton production has decreased in the country and demand for man-made fibre will increase. LOTCHEM has supplies to major PSF producers alongside PET bottle producer.

We expect better capacity utilization of LOTCHEM in CY16 (as against 458k tons utilized in CY15). We see 2016 could be different given lesser cotton output, lower crude price, and better appetite from major textile players of synthetic fibre & slight better business environment in the country as against last year. Also some of the remaining PTA supplies could still go to PET bottle producers despite tough conditions reported by the company.

LOTCHEM can be a price maker given sole producer of PTA in the country however, textile players too are in a better place to negotiate competitive rates on PSF in the wake of main textile body APTMA, which is currently calling shots.

LOTCHEM is hopeful that supplies from China would come under the scanner of anti-dumping which would be a good omen. We also expect decrease in tax & energy cost to help the bottom-line. LOTCHEM also fights on another front i.e. seeking increase in PTA import tariff from government.

During the end of 2015, domestic PSF industry was able to have provisional anti dumping duty levied on several Chinese PSF producers. This indeed would indirectly benefit LOTCHEM in the ongoing year. Moreover, decrease in cotton production would invariably help in beefing up supplies of PSF which will help LOTCHEM to supply PTA (main raw material for PSF).

REP-033

LOTCHEM Price: Rs. 6.15
Accumulated Loss Rs5.18bn CY15

EPS sensitivity Rs/sh

PTA Px margin in USD

120	-0.01
130	0.32
150	0.98

Assumptions CY16

Capacity Tpa	475,000
USD	105

Prices PTA Stable

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Assumption 1Q.....

Estimated 1Q Gross profit Rs1bn
Estimated capacity utilized 80ktons
Estimated loss in 1Q Re 0.24

Assumption CY16

Estimated gross profit Rs5.5bn
Estimated capacity utilization 475ktons
Estimated EPS Re0.98

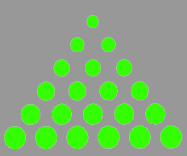
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Watch LOTCHEM vs KSE100 chart (next page)

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Assumption in CY16 (see table)

We expect loss in 1Q (due to heavier financial charges); however, we assume LOTCHEM to be in profits during CY16 (given our thrust of increase in PTA-Px margin which could go hover around USD130-USD150).

Nevertheless, LOTCHEM needs to increase volume sales to target customers and it should be above 450kton per annum – 475ktons per ton to attain profits. Risk to our view included volatility in crude prices which influence naphtha based paraxylene prices.



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