

Sitara Peroxide Limited (SPL): Profits round the corner... *Long term Buy*

Sitara Peroxide Limited (SPL) is Faisalabad based chemical company with basic activity of manufacturing and sale of hydrogen peroxide (H₂O₂).

The company is operating in chemical industry with a normal competition with Lahore based Descon Oxychem (DOL).

SPL is supplying its product (H₂O₂) to the textile manufacturer of Sindh and Punjab provinces. Currently the prices are hovering at Rs.54/kg and **we expect it to increase by 4% - 5% i.e. by Rs 2.0/kg which would be a good omen for SPL**, even though, we have conducted sensitivity at Rs. 54/kg and came up with FY13 profitability of Re0.49/sh EPS on the conservative side.

SPL Closing	Rs 12.60/sh
Change	0.39
52 Weeks High	15.2
52 Weeks Low	9.55
Free-Float Shares	27.55mn
Total No of Shares	55.1mn
FY13 PEx	24
FY14 PEx	6.3

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Increase in prices of H₂O₂

The prices of H₂O₂ have increased by 17% during the 3QFY13, which have rose to Rs.54/kg against Rs. 46/kg reported in 1QFY13, which may attract SPL to sell out their stock in trade inventory and receive the cash. As it is noted that previously SPL was facing liquidity crunch and have borrowed short term loans from banks which had hampered the production capacity during the first quarter of Fiscal year.

We expect that cash inflow due to increase in prices of H₂O₂ will enable SPL to pay back the loans and will bounce back to its normal production capacity. And we believe that it may show company in profit at the end of fiscal year.

Earnings to come back in FY13

We expect that SPL may post EPS of Rs.0.49 at the year end result, because due to increase in prices total sales value will increase which will create a opportunity of 30% Gross margin against 19.5% Gross margin in 2QFY13.

We believe that company may incur relatively low finance cost as against 1HFY13 because due to quite impressive cash Inflow company will not have to borrow further short term loans. Hence we can expect profit of Rs. 27mn against loss of Rs.198mn in FY12 and EPS of Rs.0.49/sh against LPS of Rs.3.6/ share in FY12.

P&L assumptions sensitivity

	FY13E	2QFY13	1QFY13
Sales	1,138,267,360	542,032,076	223,249,595
Sales Price	Rs.54/Kg	Rs. 51/Kg	Rs.46/kg
GP Margin	30%	19.5%	8.6%
EBIT Margin	20.0%	10.0%	-0.2%
Finance Cost	185,907,240	97,845,916	55,523,624
PAT	27,135,050	(45,111,773)	(57,213,923)
(LPS)- EPS	0.49	-0.82	-1.04

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FY14 Trigger

We expect profit spree to come back in SPL wherein the company may regain normal sales. We anticipate robust FY14 earnings which would change fortunes given local intake of H₂O₂ would increase. We signal our positive stance with long term Buy call. **Analyst: Rajesh Kumar Maheshwari**

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