

Engro Polymer & Chemical Limited

KATS: EPCL
Bloomberg: EPCL PA

Price: PKR 45
Fair Value: PKR 55

OUTPERFORM

Low Payout of 27% Posted in 4QCY23

20 February 2024

- **Higher EPS of PKR 3.69 in 4QCY23.** EPCL revealed its financial results today, wherein the company posted a higher than expected EPS of PKR 3.69 for the 4QCY23, due to 1) lower effective tax rate, 2) reduced finance cost by 80% Q/Q, and 3) lower than expected COGS. However, total earnings for CY23 clocked in at PKR 9.06/sh vs. PKR 12.37/sh in CY22 (down 24% Y/Y).
- **Low dividend payout recorded.** A lower than expected payout of 27% was posted in 4QCY23, possibly due to the anticipated commencement of its Hydrogen Peroxide plant or debt retirement. The total dividend in CY23 was 6.00/sh vs. 12.50/sh in CY22.
- **Finance cost reduced 80% Q/Q.** In 4QCY23, company's finance cost totalled PKR 250 MN (down 80/71% Q/Q / Y/Y), likely due to debt retirement on which we await detailed accounts. As of Sep-23, company had long term borrowings of PKR 18.4 BN.
- **Positive other expenses.** With the PKR appreciation in 4QCY23, EPCL recorded FX gains, resulting in positive other expenses of PKR 73 MN.
- **Lower tax rate supports bottom line.** In the quarter, a decreased effective tax rate of 17% indicates that the company may have deferred its tax payments, leading to a probable increase in its deferred tax liability. However, further clarification on this matter is awaited.
- **Outperform stance maintained.** We maintain an outperform stance on the company with a fair value of PKR 55/sh.

Y/E: Dec	CY22	CY23	CY24E	CY25E
EPS	12.37	9.06	4.64	6.81
DPS	12.50	6.00	4.21	6.66
BVPS	29.85	31.56	32.71	32.96
P/E	3.61	4.93	9.63	6.56
D/Y	28%	13%	9%	15%
P/B	1.50	1.42	1.37	1.36

Source: Company Accounts, Optimus Research

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Earnings Snapshot

2

PKR MN	4QCY23E	4QCY23	3QCY23	2QCY23	1QCY23	4QCY22	Q/Q	Y/Y	CY23	CY22	Y/Y
Net sales	19,862	19,231	25,016	19,044	17,978	19,751	-23%	-3%	81,270	82,060	-1%
Cost of Sales	(15,914)	(14,065)	(18,492)	(13,592)	(14,387)	(16,536)	-24%	-15%	(60,536)	(58,680)	3%
Gross Profit	3,948	5,167	6,524	5,452	3,591	3,215	-21%	61%	20,734	23,380	-11%
Distribution Costs	(159)	(406)	(141)	(139)	(146)	(171)	188%	138%	(832)	(587)	42%
Admin. Expenses	(300)	(721)	(293)	(330)	(274)	(216)	146%	234%	(1,618)	(1,005)	61%
Operating Profit	3,489	4,039	6,090	4,983	3,171	2,828	-34%	43%	18,283	21,787	-16%
Other Expenses	(397)	73	(818)	(352)	(766)	(304)	nm	nm	(1,863)	(3,481)	-46%
Other Income	432	399	376	332	444	151	6%	164%	1,551	1,481	5%
Finance Costs	(1,477)	(250)	(1,237)	(1,551)	(1,177)	(869)	-80%	-71%	(4,215)	(3,092)	36%
Profit Before Tax	2,047	4,262	4,411	3,412	1,672	1,807	-3%	136%	13,756	16,696	-18%
Taxation	(738)	(716)	(1,769)	(1,850)	(489)	573	-60%	nm	(4,824)	(5,007)	-4%
Profit After Tax	1,309	3,545	2,642	1,562	1,183	2,380	34%	49%	8,932	11,689	-24%
EPS (Basic)	1.23	3.69	2.74	1.39	1.30	2.37			9.06	12.37	
EPS (Diluted)	1.08	2.93	2.19	1.29	0.98	1.97			7.39	9.67	
DPS	1.16	1.00	2.50	1.50	1.00	2.50			6.00	12.50	
Gross Margins	20%	27%	26%	29%	20%	16%			26%	28%	
Net Margins	7%	18%	11%	8%	7%	12%			11%	14%	
Effective Tax Rate	36%	17%	40%	54%	29%	nm			35%	30%	

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