



## Today's Daily

### ■ EPCL: CY11 Result Preview

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#### KSE 100 - Index

Current	11,874.89
Previous	11,883.01
Chg.	-0.07%

#### Mkt Cap. (PkRbn/US\$bn)

Current	3,083 / 34.11
Previous	3,086 / 34.13
Chg.	-0.07%

#### Daily Turnover (mn)

Current	60.18
Previous	67.06
Chg.	-10.3%

#### Value Traded (PkRmn/US\$mn)

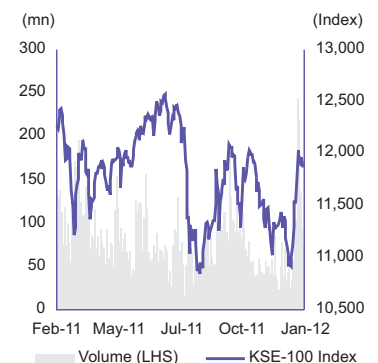
Current	2,574 / 28.47
Previous	4,991 / 55.21
Chg.	-48.4%

#### SCRA Flow FYTD (US\$mn)

30-Jan-12	(227.83)
27-Jan-12	(228.89)
Val. Chg	1.06

## News and Views

- The Privatization Commission will shortly table the secondary offering details for PPL. In this regard, the GoP intends to offer a 2.5% stake in PPL and reportedly raise US\$70mn which translates into price of ~PkR192/share based on a PkR/US\$ exchange rate of 90.
- Petroleum product prices have been increased by PkR3/litre to 6.23/litre, LPG price is up by PkR14/liter while a 10% infrastructure development surcharge has been levied on CNG. Petrol and diesel prices were increased by PkR5.37/liter and 4.64/liter respectively.
- EU's Ambassador to Pakistan has reportedly stated that following anticipated WTO approval, the EU can finalize trade concessions (removal of tariffs on textile products) by Apr'12 or May'12.
- WATEEN has launched 'Freedom Booths', which in its view will revolutionize communication in Pakistan. Freedom Booths are similar to telephone booths and include a laptop equipped with a camera and a telephone system. Current strategy of the company is to launch Freed Booths in extremely low internet penetration areas.



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**EPCL to post first quarterly profit since 2QCY09:** Given the improvement in VCM production profile, we expect significant recovery in EPCL's profitability in 4QCY11, where we expect the company to post its first quarterly profit since 2QCY09. The company is forecast to post a small profit of PkR19mn (EPS: PkR0.03) in 4QCY11, compared with NLAT of PkR245mn (LPS: PkR0.37) in 3QCY11. Strong rebound in margins following improved production at the VCM plant is expected to drive operating profits in 4QCY11, where we estimate gross margins (GMs) to jump sequentially by 715bps QoQ to 17.8%. Margin expansion is expected despite the QoQ fall in PVC prices, following improved in-house VCM production, reducing the need for expensive VCM imports. Furthermore, int'l ethylene prices were down by 3%QoQ, which should add further impetus to the margin expansion.

**Outlook for CY12:** While the improvement in VCM production is a very welcome development for EPCL, 2012 has started on a slightly negative note for the company given the sharp rise in ethylene prices, which are currently at their 8 month high of US\$1,180/ton. Petrochemical prices in general have been on the rise since end Nov'11, following the surge in naphtha prices (higher oil price), which has forced many players to raise end product prices to maintain margins. Resultantly, despite the slight recovery in PVC prices, int'l PVC-Ethylene PMs have shrunk to US\$394/ton in Jan'11, where PMs in CY11 averaged at US\$500/ton. For EPCL, we have assumed a long term PVC-Ethylene PM of US\$550/ton, which is higher than the int'l average due to PVC selling at a premium in Pakistan. Based on our sensitivity on PVC-Ethylene PMs, a US\$50/ton change in PM would lead to an average change in EPS of PkR0.5 for EPCL. At current levels we have a Neutral stance on EPCL with a target price of PkR8.17/share. Key triggers for the scrip would be i) stable production at VCM plant, ii) improvement in PVC-ethylene margins, and iii) monetary easing.

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KATS Code	EPCL
Bloomberg Code	EPCL.PA
Price PkR	8.45
Market Cap (PkRmn)	5,606
Market Cap (US\$m)	62.36
Shares (mn)	663.47
3M High (PkR)	8.79
3M Low (PkR)	7.23
1Yr High (PkR)	13.62
1Yr Low (PkR)	7.23
3M Avg Turnover '000	167.19
1 Yr Avg Turnover '000	326.60
3M Avg DT Value (PkRmn)	1.36
3M Avg DT Value (US\$m)	0.02
1Yr Avg DT Value (PkRmn)	3.53
1Yr Avg DT Value (US\$m)	0.04

### EPCL Price Performance

	1M	3M	6M	12M
Absolute (%)	16.2	7.1	-11.8	-35.1
Rel. Index (%)	11.6	7.0	-9.2	-31.2
Absolute (PkR)	1.2	0.6	-1.1	-4.6

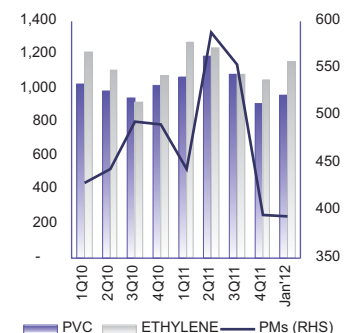
Source: AKD Research

### EPCL CY11\*: Result Preview

(PKR mn)	CY11E	YoY	4QCY11E	QoQ
Net sales	16,920	16%	4,567	6%
Gross profit	2,314	77%	813	77%
S&A expense	1,179	23%	311	4%
OP	955	346%	456	995%
Finance cost	1,574	9%	407	-1%
PBT	(619)	-49%	50	-113%
PAT	(421)	-45%	19	-108%
EPS (PKR)	(0.64)		0.03	

Source: Company reports & AKD Research  
\*Consolidated earnings

### EPCL Primary Margins Trend



Source: Bloomberg



# AKD Daily

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## *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	≤ -5% to > -20% downside potential
Sell	< -20% downside potential