

Flash Note

Tuesday, 04 February 2020

Chemical

Engro Polymer and Chemicals Limited (EPCL)

Higher financial charges and slower Ebit growth; EPS down by 20% y/y to PKR 4.0/share; total payout increased to 0.8/share

- ✓ On a consolidated basis company's earnings clocked in at PKR +3.7bn or PKR 4.07/share, down by 20% y/y. Similarly, on a quarterly basis, earnings are down by 18% y/y to PKR 0.97/share.
 - ✓ The company announced a cash dividend of PKR 0.2/share, taking total payout to PKR 0.8/share in 2019
 - ✓ Net sales for the 2019, improved by +7%y/y (+3% y/y in 4q due to previous year high base).
 - ✓ Gross margins decreased by a mere 15bps y/y to ~21.4% from last year 22.6%. Major margin attrition came during 4q whereby gross margin stood at 16.2% down by 360bps y/y, owing to unfavorable core delta. Nevertheless, company's gross profit increased by +7% y/y which due to reduce other income did not translate into similar Ebit growth.
- Moreover, company's finance cost also doubled to PKR 1.8bn compared to PKR 0.6bn last year, which along with 27% effective tax charge, led to a 20% earning erosion in 2019.

Exhibit: EPCL Result Highlights										
Period end (Dec) - PKRmn	2019	4q/19	3q/19	2q/19	1q/19	2018	4q/18	3q/18	2q/18	1q/18
Net Sales	37,837	10,002	9,234	9,257	9,344	35,272	9,748	8,422	8,414	8,687
Cost of Sales	29,731	8,377	6,992	7,230	7,131	27,663	7,812	6,182	6,355	6,187
Net Sales Growth %	7%	3%	10%	10%	8%	27%	33%	15%	35%	28%
Gross Profit	8,106	1,625	2,242	2,027	2,213	7,609	1,936	2,240	2,060	2,500
Gross Profit Margins	21%	16%	24%	22%	24%	22%	20%	27%	24%	29%
Sell. / Dist. & Admin	962	(119)	294	277	511	961	513	506	494	530
Other Op. Income/Expense	(311)	88	256	(742)	88	102	237	(17)	(64)	221
EBIT	6,833	1,832	2,203	1,008	1,790	6,750	1,660	1,717	1,501	2,191
EBIT Margins	18%	18%	24%	11%	19%	19%	17%	20%	18%	25%
Financial Charges	1,794	594	472	459	268	606	155	153	141	158
Pre-tax Profits	5,039	1,238	1,731	549	1,522	6,144	1,506	1,564	1,360	2,033
Taxation	1,343	354	461	101	427	1,533	431	483	34	585
Effective Tax Rate (%)	27%	29%	27%	18%	28%	25%	29%	31%	3%	29%
Post-tax Profits	3,696	884	1,270	448	1,094	4,611	1,074	1,082	1,326	1,448
Net Margin (%)	10%	9%	14%	5%	12%	13%	11%	13%	16%	17%
EPS	4.07	0.97	1.40	0.49	1.20	5.07	1.18	1.19	1.46	1.59
DPS	0.80	0.20	0.60	-	-	1.10	0.30	-	0.80	-

No. of Shares: 908.9mn

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