



engro polymer & chemicals

ANALYST BRIEFING – 2014

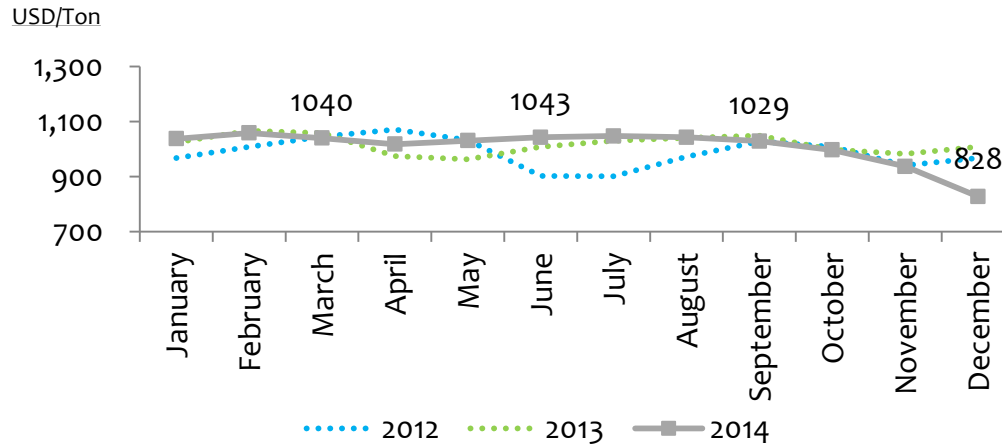


Summary

- In 2014, the Company achieved a revenue of Rs. 23,819 Mn as against 24,781 Mn in 2013
- The Company posted a loss after tax of Rs. 1,109 Mn translating into negative Earnings Per Share of Rs. 1.67 in 2014 as compared to a profit after tax of Rs. 707 Mn and Earning Per Share of Rs. 1.07 in 2013
- This setback was witnessed due to following major factors
 - Unfavorable vinyl chain prices especially in 4Q which also forced the Company to revalue its inventory at net realizable value (NRV)
 - Contraction of the PVC domestic market due to imposition of duty on PVC pipes by government of Afghanistan and inventory depletion by end users
 - Unfavorable swing in the USD/PKR exchange rate
 - Increase in gas price due to Gas Infrastructure Development Cess (GIDC)
 - Imposition of 5% duty on primary raw materials
 - Higher supply of Caustic restricting price levels
- The Company has maintained its operational ability at optimum level and as market forces rationalize margins it will be able to restore economic value generation

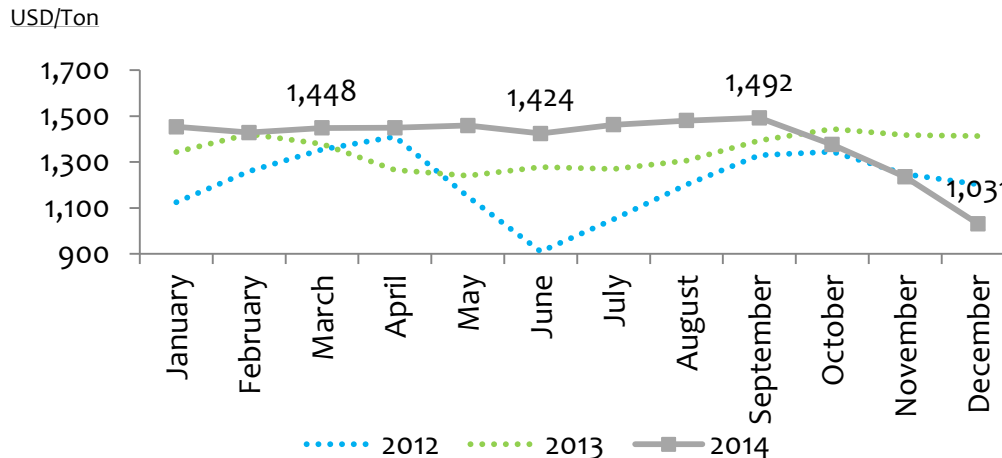
International Business Context

- International PVC Price



- In 4Q 2014, PVC prices plummeted significantly. The phenomena can be attributed to sharp drop in feedstock prices and weak demand sentiment post negative economic outlook

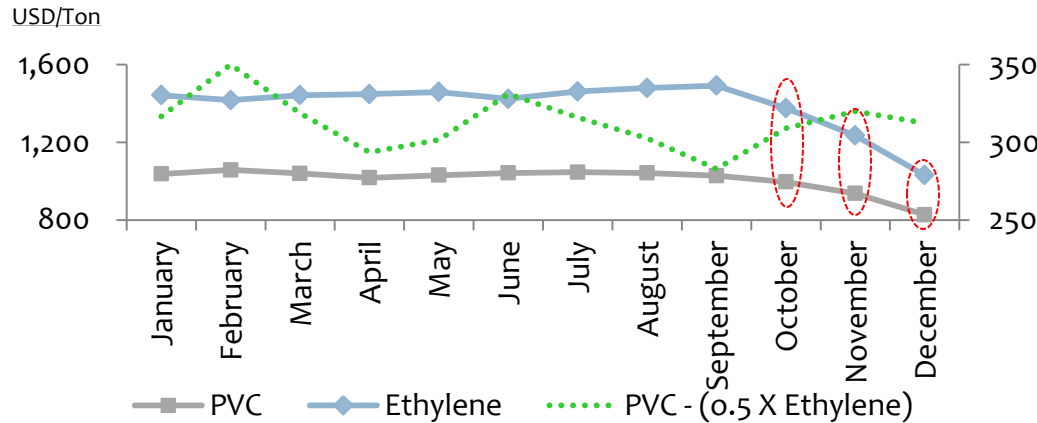
- International Ethylene Price



- After staying firm in first three quarters of 2014, ethylene prices plunged sharply in 4Q. Ethylene prices followed the crude oil prices and closed the year at \$ 1,031/ton

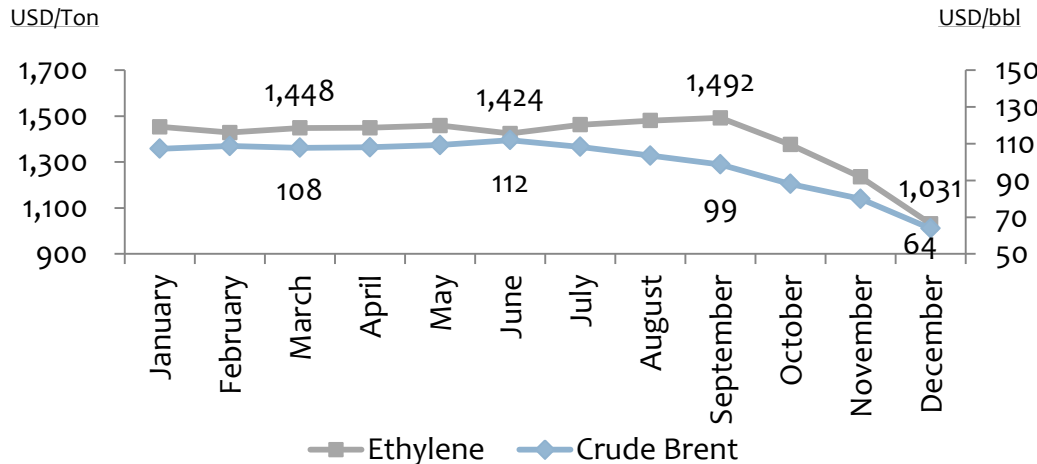
Ethylene, Crude oil and PVC

- PVC and Ethylene Prices



- PVC and Ethylene are part of the vinyl chain, price drop on both ends improved core delta in 4Q on current market price levels. However, since petrochemicals do not operate on lean inventory this gain could not materialize instantly for EPCL

- Analysis of ethylene and crude oil prices



- During the first half of the year, ethylene prices remained in line with crude oil price trend. However, in 3Q ethylene price increase due supply tightness. In 4Q, ethylene resumed the trend and fell sharply in line with drop in oil prices

Domestic Market Overview

PVC

- Domestic market remained challenging in 4Q 2014
 - Drop in PVC prices encouraged buyers to adopt wait and see approach on prices. This resulted in accumulation of inventory with EPCL
 - To encourage off take in the domestic market in declining price trend, EPCL offered price protection. The measure improved off take and normalized inventory levels
 - Annual sales of PVC stood at 125 KT, lower than last year due to contraction of domestic market after imposition of duty on pipe by government of Afghanistan and inventory depletion by end users

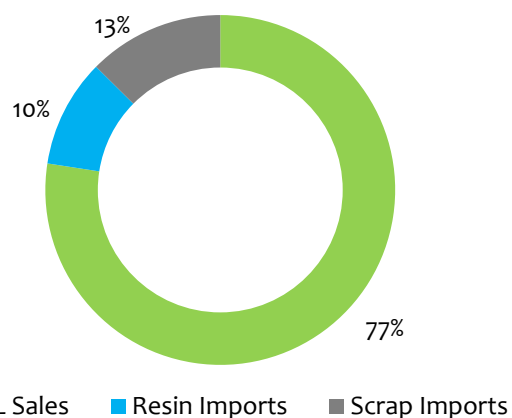
Caustic

- Domestic caustic market remained evenhanded in 4Q 2014:
 - The sector remained well supplied in 4Q and competition offered lower prices to attract market
 - EPCL maintained its strategy of avoiding price war to the extent possible and compensated the lost domestic volumes by exports

Highlights – Vinyls

	4Q 2014	4Q 2013	2014	2013
PVC production in KT	44	40	153	146
VCM production in KT	53	46	168	170
PVC Sales in KT				
Local	34	34	125	139
Export	11	-	21	4
EPCL PVC Base Price (\$/MT)	889	1,049	1,030	1,052
EPCL weighted average Ethylene Avg. Price (\$/MT)	1,382	1,410	1,439	1,358
PVC – Ethylene Core Delta (\$/MT)	198	344	311	373

PVC Domestic Market Share *



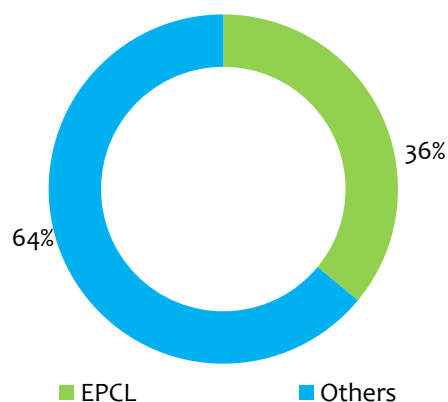
- In 2014, the Company secured market share of 77% as against 81%, marginal decline in market share was due to rise in imports
- PVC market adjusted for Afghanistan grew by 2.6% in 2014
- In 4Q 2014, EPCL was able to achieve robust sales despite falling prices of PVC through price protection scheme
- In 4Q, EPCL posted highest ever production of PVC and VCM

* Market share is based on our best estimates and have not been verified by an independent source

Highlights – Caustic & Allied

	4Q 2014	4Q 2013	2014	2013
Caustic Production (KT)	27	31	114	115
Caustic Sales Volume (KT)	24	27	93	100
Caustic Price (Rs/MT)	47,566	51,442	49,176	49,369
Hypo Sales (KT)	6	5	21	21
HCL Sales in (KT)	5	6	17	19

Caustic Domestic Market Share *



- The Caustic Soda market size stood at approximately 260 KT in 2014, EPCL emerged as a strong player and sold 93 KT in domestic market, maintaining a market share of approximately 36%
- In 2014, the Company was successful in introducing sodium hypochlorite as a water disinfectant in municipal bodies. The practice will be replicated at several other pumping stations in 2015
- The production of caustic soda, hypo and HCL remained stable during the year

* Market share is based on our best estimates and have not been verified by an independent source

Financial Highlights

- Financial Performance

PKR Million	2014	2013
Total Revenue	23,819	24,781
Contribution Margin	5,086	7,759
EBITDA	828	4,051
Profit/(Loss) Before Tax	(1,528)	1,343
Profit/(Loss) After Tax	(1,109)	707

- Variance as compared to 2013 was witnessed on account of:
 - Lower domestic PVC sales coupled with lower domestic margins
 - Imposition of duty on primary raw material
 - Higher gas price due to imposition of GIDC on gas price which has been provided
 - Inventory write down in 4Q at NRV based on export contracts which were lower of cost, aggressive export strategy was used to mitigate commodity price risk in a falling market

Outlook for 1Q 2015

- Improving PVC prices and stable ethylene prices, have improved the core delta at current international market price levels. EPCL holds sufficient supply of ethylene to ensue smooth operations therefore the price drop in ethylene may not entirely translate into benefit in the same period
- PVC domestic demand is expected to remain stable and end users are expected to build inventory in rising market. The trend is however subject to PVC price direction, if uptrend continues we may witness improved resin off take
- Ethylene prices will derive direction from oil prices but any unaccounted for shutdown of ethylene crackers in the region may disrupt the trend
- Caustic Soda domestic demand is expected to remain stable in the upcoming quarter

Thank You