

Lotte Chemical Pakistan (LOTCHEM)

**2Q2018 EPS Rs0.65, up by 21x YoY; 1H2018 EPS Rs0.89 up 287% YoY
in line with expectations**

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Improved margins led exponential growth in 2Q earnings

LOTCHEM: Financial Highlights						
Rsmn	2Q2018	2Q2017	YoY	QoQ	1H2018	YoY
Net Sales	13,319	9,340	43%	8%	25,695	29%
Cost of Sales	11,606	9,148	27%	3%	22,861	19%
Gross Profit	1,713	192	792%	53%	2,834	322%
Distribution Expenses	21	22	-6%	2%	41	-18%
Admin expenses	92	85	9%	4%	181	7%
Other operating Expenses	174	11	NM	89%	266	855%
Other Income	127	64	99%	40%	217	79%
Operating profit	1,552	137	NM	54%	2,562	369%
Finance Cost	100	33	200%	-43%	276	550%
Profit before Tax	1,452	104	NM	74%	2,286	353%
Taxation	462	63	NM	-3%	941	525%
Profit after Tax	990	41	NM	179%	1,345	280%
EPS (Rs)	0.65	0.03			0.89	

Source: PSX, Topline Research

- LOTCHEM posted earnings of Rs0.65/share in 2Q2018, showing exponential growth over similar period of last year. The result was higher than street consensus but is in line with our expectations. We attribute higher earnings to improved PTA-PX margins of around US\$170/ton in 2Q2018 vs. US\$80/ton in 2Q2017. Gross margins during the quarter clocked in at 13% vs. 2% in 2Q2017.
- Effective tax rate during the outgoing quarter remained normal at 32% vs. 61% and 57% in 2Q2017 and 1Q2018 respectively. To note, effective tax rate of the company was higher in last few quarters as LOTCHEM was struggling with turnover taxes. We await for further clarity from the management in this regard.

Improved margins led exponential growth in 2Q earnings

- LOTCHEM reported sales growth of 43% YoY during 1Q2018 due to increase in PTA prices by 31% YoY to average of US\$822/ton during the quarter coupled with PKR devaluation.
- Other income of the company increased by 79% YoY to Rs217mn during 1H2018 due to availability of surplus cash amid accrual of GIDC and the company's turn in profitability.
- The Company recorded finance cost of Rs276mn during 1H2018, up by 550% YoY due to exchange losses incurred on foreign payables.
- We flag, 1) removal/reduction of RD 2) PKR appreciation, 3) Decline in PTA-PX margins and 4) lower demand from downstream segment as key risks to our valuation and earnings.

LOTCHEM: Key Numbers					
	2013A	2014A	2015A	2016A	2017A
EPS	(0.36)	(0.73)	(0.49)	0.21	0.27
Earnings Growth	NM	NM	NM	NM	27%
PE at Rs13.84	NM	NM	NM	64.71	50.83
Dividend Yield	0%	0%	0%	0%	1%
ROE	NM	NM	NM	3%	4%
PBV	1.7	1.8	2.0	2.1	2.0

Source: Company Accounts, Topline Research

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