

# Wake up Call

## EPCL: PVC-Ethylene margin at record high

January 26, 2021

- PVC-Ethylene margin rose by 6% WoW to record US\$800/ton.
- The increase came on the back of a 9% decline in the Ethylene prices, currently at US\$900/ton whereas spot prices were under pressure due to sluggish demand from Chinese buyers owing to the rising Covid-19 cases.
- Meanwhile, PVC prices were relatively stable on a weekly basis at US\$1,250/ton on account of a slight increase in demand from South East Asian buyers. However, higher exports from China helped offset the impact and kept PVC prices stable.
- Thus, lower Ethylene prices and stable PVC prices widened margins by US\$42/ton WoW.
- PVC-Ethylene margins have averaged around US\$380/ton in the last 10 years whereas current margins are at a premium of around 1.1x compared to the 10-year average.
- Going forward, based on our assumptions, we expect margins to settle at US\$410/ton in the long term.
- We have a 'Buy' stance on EPCL — our top pick in chemical sector, currently trading at 2021 PE of 7.4x and implied PVC-Ethylene margin of US\$375/ton.



Company	Engro Polymer & Chemicals
Symbol	EPCL
Recommendation	Buy
Target (Rs)	63

### Key Data

Current Price (Rs)	48
Avg. Daily Volume (mn sh)*	3.2
Outstanding Shares (mn sh)	909
Current Market Cap. (Rs bn)	43.2
Free Float (mn sh)	318

\* Last 52 Weeks

Source: PSX, Sherman Research

Sherman Research is also available on S&P Capital IQ, Thomson Reuters Eikon, FactSet and MG-Link

► Analyst Certification and other disclosures on next page

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**Risks to Valuation:**

Risk to valuation includes: 1) Volatility in international margins. 2) Increment in gas prices. 3) Unexpected Rupee appreciation. 4) Payment of GIDC.

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**Price Methodology:**

To arrive at our period end Target Price, Sherman Securities uses different valuation methods which include : 1) Discounted Cash flow method 2) Relative Valuation method and 3) Justified Price to Book Value method.

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BUY	≥ 15.0%	SELL	≤-10%	HOLD	Between -10% to 15.0%