Chemical

EPCL: Management Call Takeaways

- Engro Polymer & Chemicals Limited (EPCL) held a corporate briefing session to discuss the 1HFY25 financial results and provide key insights on the future outlook for the Company.
- EPCL reported revenue of PKR 37.6bn, a 9% YoY increase, primarily due to higher PVC sales volumes. However, profitability remained severely impacted, with a loss of PKR 3.2 billion (LPS: PKR 3.55).
- The PVC market faced significant pressure globally due to weak construction demand and oversupply. Domestically, demand improved slightly in Q1 and Q2, supported by real estate recovery, although construction activity overall remains subdued. Margins remain under pressure due to declining product prices and rising input costs.

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Key highlights from Corporate Briefing

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- PVC remains EPCL's primary revenue driver, contributing ~80% to the contribution margin, with the remaining 20% coming from the chlor-alkali segment. The core delta (PVC-ethylene spread) averaged US$ 275/ton, dipping to a low of US$ 240/ton in Mar-25 and recovering to US$ 301/ton by Jun-25. This remains below historical averages. The decline in core delta, combined with weak pricing, has led to margin compression and continued losses over the past 4–5 quarters.

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- The management highlighted that gas remains a major cost component. As of Mar-25, captive gas cost rose to PKR 3,500/MMBtu with an added levy of PKR 791/MMBtu, totaling PKR 4,291/MMBtu. A revised levy of PKR 238/MMBtu was notified effective Jul-25, but its retrospective applicability is being contested in court. Processed gas prices were also raised to PKR 2,300/MMBtu from Jul-25. EPCL has made a provision of PKR 1bn for the gas levy for Mar–Jun 2025, with cumulative provisions reaching ≈ PKR 1.4 billion.

- The management expressed that energy cost optimization remains a top priority for the company. However, EPCL does not have grid connectivity, which limits operational flexibility. The company is actively exploring alternative energy sources, including coal and renewable energy, but no firm timeline has been disclosed.

- Looking ahead, EPCL expects gradual margin recovery in 2HFY25, supported by potential interest rate cuts, ongoing market development initiatives, and an anticipated rebound in construction activity. Core delta improvement will hinge on sustained ethylene price softness and stable PVC demand.

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