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Lucky Core Industries Ltd

Alfalah CLSA conducted a briefing session today with Lucky Core Industries Limited as part of Chemical Conference. Lucky Core Industries Limited, (Formerly: ICI Pakistan Limited), is a dominant player in the chemical sector. It operates in diverse business segments including Polyester fibre, Soda Ash, Pharmaceuticals, Chemicals, Agriculture and Animal health. We have entailed below the crux of management guidance.

Soda Ash contributes more than 50% to operating profit: Polyester fibre contributed 36.8% while Soda Ash accounted for 37.6% of the revenues (9MFY23), followed by Chemicals, Pharma and Animal Health segments. However, Soda Ash alone contributed 52.4% to the operating profit followed by PSF: 20.9%. Soda Ash has been the key anchor for growth for LCI with consistent expansions over the last few years while establishing its foothold in the export market as well.

Financial performance: All segments of the company have been experiencing decent topline growth, despite tough economic environment. However, overall margins have declined owing to burgeoning raw material and fuel costs amidst global inflation (9MFY23 GP/Operating margins: 19.9/13.0% vs 9MFY22 GP/Operating margins: 22.1/13.9%). However, operating margins recovered in the latest quarter (3QFY23: 16.5% vs 13.4% SPLY and 8.7% in 2QFY23). We opine that margins may improve in the medium to long term due to the company's efforts to improve energy efficiency and consistent focus on growth through both organic and inorganic avenues.

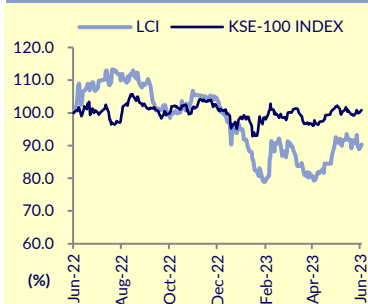
Recent Soda Ash expansion to reflect in FY24: The company has recently completed its Soda Ash expansion in March-23, taking the total capacity to 560k tons. The management expects to run at full capacity next year, out of which 15-18% (80-100k tons) shall be exported to various countries. Note that Bangladesh and Sri Lanka are the key markets for Pakistani Soda Ash. Note that Soda Ash volumes increased 13%YoY in 9MFY23 due to import restriction.

Update on projects/events

- ❑ Lotte Chemical's acquisition is underway; next step in CCP approval and then fulfilment of certain conditionalities. So, it is difficult to give a definite timeline for completion of the same.
- ❑ Float glass JV project has been rather slow due to LC issues and demand slowdown in general. The company is in no rush and will proceed once economic situation improves. Capex was initially estimated at PKR18bn; however, since the announcement of the project, PKR has depreciated by 63%, thereby escalating the potential cost to ~PKR29bn.
- ❑ The company is planning to install its 6th coal fired boiler to remain energy efficient. Note that this conforms with the company's strategy to remain a low-cost producer across verticals.
- ❑ Moreover, LCI has all three primary sources of energy namely Coal, Gas and FO, providing the company a partial hedge against price volatility.
- ❑ Currently, PSF segment uses a mix of gas and FO; but gas subsidy has been discontinued since April 2023.

Symbol	LCI
Price PKR	588.7
Bloomberg	LCI PA
Reuters	LUCK.PSX
Mkt. cap USD mn	190.3
No. of Shares mn	92.4
3M ADV USD mn	0.02

LCI vs KSE100 performance



Source: PSX, Bloomberg

- ❑ Certain smaller projects are in pipeline including expansion of Dense Soda Ash (PKR1.5Bn), MasterBatch-Chemicals Segment (PKR200-300Mn) and New Medicine Plant-Animal health (PKR500-600Mn).

Other facts

- ❑ Current average Soda Ash price is in the range of PKR94,000 to 96,000/ton. Export price (FOB) is ~USD320/ton.
- ❑ Duty structure on Soda Ash: CD 11%, ACD: 2% and RD 10%.
- ❑ LCI used to export around ~3-4k tons of Soda Ash per month to India before trade restrictions.
- ❑ Despite shutdown of Lotte's plant in 1QCY23, the company managed to run PSF plant at full capacity. Certain portion of PTA was imported.
- ❑ LCI produced/sold around 480/468k tons of PSF in 9MFY23.
- ❑ 7-8% of topline of Pharma business consists of new products. The company plans to add 6 new drugs on average each year to the product portfolio.

Archroma Pakistan Limited

Alfalah CLSA conducted a briefing session today with Archroma Pakistan Limited (ARPL) as part of the Chemical Week. Archroma Pakistan is chemical company mainly supplying key raw materials to the textile supply chain including specialized chemicals for pre-treatment, dyeing, printing and finishing of textiles. Archroma's products are used in diverse segments namely denim, fashion, home textiles, automotive and special technical textiles. Archroma currently holds 60% market share in its prime product (Indigo), while imports account for 10-15% of the market. Other smaller high growth segments include home care, packaging, paints and construction. We have entailed below the crux of management guidance along with some details about the company's performance.

Indigo, the flagship product of the company: Indigo is the prime product (~40-50%) of ARPL both for local and export markets. Note that capacity for Indigo underwent expansion 4 times in the last 5 years to keep up with the stellar growth. Only last year, 2,000 tons (10% of capacity) were added. We also highlight that Archroma is competitive globally in its key offerings (specifically Indigo).

ARPL produces Aniline-free liquid Indigo. Aniline is taken out of Indigo in order to remove carcinogenic (cancerous) content, making ARPL the only chemical company in the world working on this process.

Diversifying into non-textile high growth segments: APRL has been consistently diversifying into non-textile related segments of home care, packaging, paints and construction. It has entered the construction (specifically steel) industry relatively recently. The newly entered segment of construction entails much scope. Homecare segment is primarily focused on household, industrial and institutional cleaning.

Huntsman acquisition to open up growth avenues: Archroma is actively working towards merger of Huntsman Textile Effects Pakistan into Archroma Pakistan Limited. Target date for the merger is October 2023. This acquisition opens up potential for growth given access to new technologies. Resultantly, ARPL will strengthen its speciality chemicals portfolio given Huntsman (Global) has some interesting products in pipeline. We highlight the current revenue of Huntsman Pakistan is ~USD10mn, with limited production capacity in the country. Therefore, with vertical integration and market penetration, this business segment has a potential to grow 10x in the medium term.

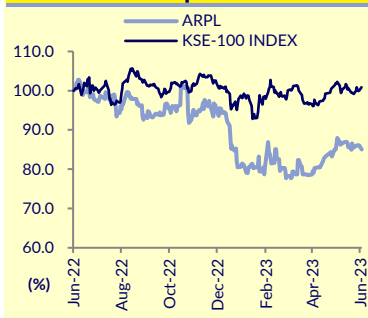
Widening export base to Central Asia: ARPL has been recently focusing on Central Asian markets in order to expand its export base. The company already has a commendable presence in the broader export market. Major export destinations include Bangladesh, Thailand, Vietnam, Turkey etc. Archroma is targeting to ramp up its exports to hedge itself against unfavourable currency movements and to counter import restrictions.

Margin stability due to dollar pricing in local market: We highlight that the company has dollar denominated prices for the local market. This provides it a hedge against currency fluctuations, enabling ARPL to maintain relatively stable margins as compared to other chemical players.

Financial performance: ARPL is a dominant chemical player, having a topline of PKR25bn in FY22, displaying a 5-year revenue CAGR of 15.5%. Average historical gross margins settled around 30%. First quarter of current financial year was

Symbol	ARPL
Price PKR	459.3
Bloomberg	ARPL PA
Reuters	ARCH.PSX
Mkt. cap USD mn	54.9
No. of Shares mn	34.1
3M ADV USD mn	0.003

ARPL vs KSE100 performance



Source: PSX, Bloomberg

challenging while recovery was witnessed in second quarter (March 2023), majorly due to an opportunity provided by import restrictions.

Company's majority revenue (~40%) comes from sale of Indigo, which is a liquid dye used to give colour to Denim. Moreover, ARPL's topline consist of 25-30% exports. Note that without exchange losses, the normalized quarterly earnings of the company would have been ~PKR27/sh in 2QFY23. The company has also maintained a decent dividend payout over the years (85-90%).

Capacities			
Segment	(Jamshoro) Tons/Annum	(Karachi) Tons/Annum	Total Tons/Annum
Dyes/OBAs	12,000	-	12,000
Chemicals	16,000	8,280	24,280
Pigments	800	720	1,520
Binders / Emulsions	36,500	15,720	52,220
Indigo	18,000	-	18,000
Total	83,300	24,720	108,020

Source: Company presentation, Alfalah CLSA Research

Other facts

- ❑ 70-75% raw material is imported
- ❑ ARPL's Indigo plant is running at full capacity currently
- ❑ ARPL's competition is from importers (imports from China, Germany etc.) and other smaller local players.
- ❑ ARPL is also thinking about backward integration (producing green hydrogen, which is 10-15% of total raw material cost)
- ❑ Market size of Unsaturated Polyester Resin is ~USD10Mn with very high growth. ARPL holds <10% of the total market, the remainder is fulfilled by imports.
- ❑ Note that exports declined YoY in 1HFY23 due to Turkey earthquake.

Engro Polymer & Chemicals Ltd

Alfalah CLSA conducted a briefing session today with Engro Polymer & Chemicals Limited (EPCL), subsidiary of Engro Corporation, as part of the Chemical Week. EPCL is the only integrated Chlor-Vinyl chemical complex in Pakistan and is the sole manufacturer of PVC resin in the country. Besides PVC, it also produces Chlor Alkali products like Caustic Soda, Sodium, Hypochlorite, and Hydrochloric Acid. PVC suspension resin is the primary product of EPCL, which is produced in a variety of grades and marketed under the brand name of 'SABZ'. We have entailed below the crux of management guidance along with some details about the company's performance.

Financial performance: EPCL is a prominent chemical player, operating in 2 segments, namely PVC and Chloralkali. EPCL had a topline of PKR82bn in CY22, displaying a 5-year revenue CAGR of 24.2%. As per the latest financials, PVC segment contributed ~88/84% to topline and bottomline respectively. For the PVC segment, profitability is primarily determined by the international core delta of PVC-Ethylene. 15-yr average core delta is USD428/ton. Note that during the commodity supercycle, margins went as high as USD1290/ton in Oct-21 before reverting to historical average earlier in 2023. Current margins hover around USD380/ton.

Domestic PVC market to remain muted: Note that size of the PVC market has remained largely stagnant in the last 5 years. Whereas recently the demand has shrunk amid economic slowdown. The management expects demand to be muted (~200-210k tons) in 2023.

LC issues hindering the new project completion: Hydrogen peroxide and HTDC projects are facing delays due to LC restrictions. These projects were initially expected to come online in 1Q2023 however they have been pushed forward to 4Q2023.

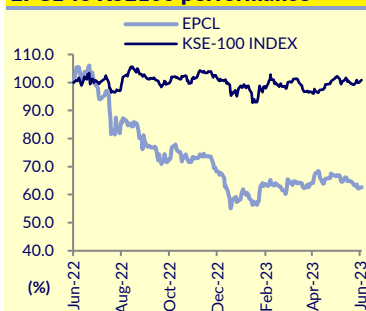
For existing businesses, LC issue is being overcome by exporting Caustic soda in large quantities (15k tons in CY22 and 4-5k tons in 5MCY23). Accordingly, Northern players have captured the void left by EPCL in Southern market.

Symbol	EPCL
Price PKR	42.7
Bloomberg	EPCL.PA
Reuters	EPCL.PSX
Mkt. cap USD mn	135.7
No. of Shares mn	908.9
3M ADV USD mn	0.11

Other facts

- RLNG usage in winter months looks like a recurring phenomenon due to depleting local gas reserves.
- VCM expansion is not on priority list at the moment.
- Management expects core delta to remain around current levels of USD380-400/ton.
- Market share of imported PVC is ~5%.
- EPCL is evaluating alternative energy sources to shield itself from gas outages and unfavourable RLNG prices.

EPCL vs KSE100 performance



Source: PSX, Bloomberg

Historical PVC margins



Source: Bloomberg, Alfalah CLSA Research

Ittehad Chemicals Limited

Alfalah CLSA conducted a briefing session today with Ittehad Chemicals Limited (ICL), as part of the Chemical Week. Ittehad Chemicals Limited (ICL) is one of the largest manufacturers of industrial chemicals in Pakistan. ICL is a pioneer in manufacturing of Chlor-Alkali products in Pakistan such as Caustic Soda, Hydrochloric Acid, Sodium Hypochlorite and Liquid Chlorine. Moreover, ICL’s surfactants plant is capable of producing different grades of LABSA and SLES. ICL holds a market share of ~28% in Caustic Soda market. We have entailed below the crux of management guidance along with some details about the company’s performance.

Financial performance: ICL has a topline of PKR24.5bn (FY23E), displaying a 5-year (FY17-FY22) revenue CAGR of 25.7%. Total revenue consists of 45-48% LABSA while remaining is caustic soda and calcium chloride. Average historical (10-yr) gross/operating margins are 16.5/7.8%. Recent outperformance in last two quarters was due to exports, which commanded high margins.

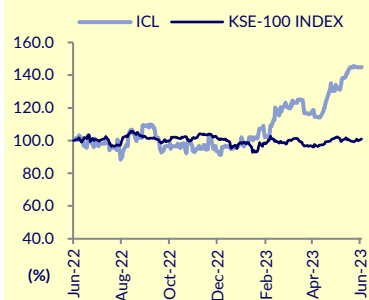
Update on new projects: ICL had commenced LABSA expansion back in FY22, expanding its total capacity to 70,000 tons per annum. Moreover, work on upgradation of power plant engines to improve fuel / operational efficiency is expected to be completed by Aug-Sept 2023. Recall that this was facing delays due to LC issues.

Other facts

- ❑ Like other chemical players, ICL is focusing on the export market.
- ❑ ICL has lost market share this year, however, it holds a significant share of ~28% in Caustic Soda market.
- ❑ LABSA prices have come down since Oct-22 (USD2850/ton to USD1800/ton)
- ❑ Current domestic price of Caustic soda is PKR140K/ton.
- ❑ LABSA is running on 35% capacity at the moment, as it has been commissioned recently. The capacity shall be ramped up gradually.
- ❑ Market size of LABSA is ~100k/ ton.
- ❑ ICL holds a market share of ~28% in Caustic Soda market (Caustic’s domestic market size has shrunk to ~280-290k tons from 325k tons). ICL sells mostly to Northern region.
- ❑ ICL has been exploring alternative sources of energy as RLNG is a costly source. Note that ICL has been running on grid for the past 1 year.
- ❑ ICL’s subsidiary expects to receive Salt Mining lease and start operations by next year.
- ❑ ICL has been facing issues in raw material procurement lately. Jan/Feb faced problems, which eased off for a while and remerged in the month of May.

Symbol	ICL
Price PKR	40.0
Bloomberg	ICL PA
Reuters	ITHD.PSX
Mkt. cap USD mn	14.0
No. of Shares mn	100.0
3M ADV USD mn	0.01

ICL vs KSE100 performance



Source: PSX, Bloomberg

Nimir Industrial Chemicals Ltd

Alfalah CLSA conducted a briefing session yesterday with Nimir Industrial Chemicals Ltd (NICL), as part of the Chemical Week. NICL is the largest oleo chemical complex in Pakistan. It also claims to be the fastest growing chemicals group in Pakistan. Moreover, it has the largest and most modern soap finishing facility. The group holds a well-diversified portfolio of products and services. We have entailed below the crux of management guidance along with some details about the company's performance.

Figure 1

Capacities		
Soap Noodles	MT	140,000
Caustic Soda	MT	40,000
Chlorinated paraffin wax	MT	12,000
Toilet soap	MT	80,000
Aerosols	Mn Cans	80
Home Care	Mn Bottles	50
Personal Care	Mn Bottles	15

Source: Company presentation, Alfalah CLSA Research

A brief timeline: We present a brief timeline of recent developments as Nimir has been working on a lot of projects recently. As of now, all the new projects have been commissioned.

Figure 2

Timeline	
3-Apr-23	Liquid Chlorine and Chlorinated Paraffin Wax (CPW) plants commissioned.
13-Jan-23	Commissioning of solid fuel fired 20 MW Thermal Power Plant Commissioning of second phase of Chlor Alkali plant's expansion-60 tons/day
9-Dec-22	Approval of establishment/set up of a 100% owned subsidiary in Uzbekistan
21-Apr-22	Completion of Caustic soda Phase-1 expansion-60 tons/day
7-Apr-22	Completion of Home Care Production Facility
30-Mar-22	Completion of Aerosol Plant expansion
24-Mar-22	Completion of "Soap Noodle Plant" expansion, taking capacity to 140ktons/annum

Source: PSX, Alfalah CLSA Research

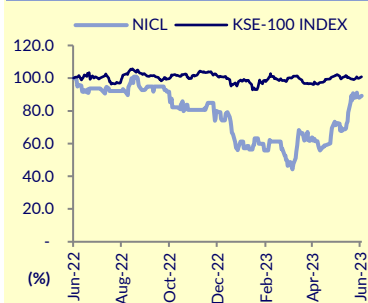
Financial performance: NICL has a topline of PKR45bn (FY23E), displaying an impressive 5-year (FY18-FY23E) revenue CAGR of ~30%. 1HFY23 saw dismal margins due to palm oil procurement at unfavourable prices from Malaysia, when prices were quite high. That costly inventory is no longer present. Latest (3QFY23) quarter saw impressive gross margins of 18.7%, highest after June-16. This was due to commissioning of new power house and caustic soda plants.

Some key points

- ❑ NICL made investments of USD150Mn in the past 10 years, out of which one-third has been done in last 1.5 years (Approx PKR8bn). Note that PKR5bn of this investment has been financed through TERF.
- ❑ The company intends to expand export footprint in Central Asia through its subsidiary in Uzbekistan. It mostly exports soap noodles currently (USD5Mn to UAE & Uzbekistan in recent months).

Symbol	NICL
Price PKR	83.0
Bloomberg	NICL PA
Reuters	NIIN.PSX
Mkt. cap USD mn	32.1
No. of Shares mn	110.6
3M ADV USD mn	0.004

NICL vs KSE100 performance



Source: PSX, Bloomberg

- ❑ NICL envisages export potential of USD35Mn in Oleo chemicals (UAE and Central Asian States) and USD15Mn in Personal & Home Care (Middle East and North Africa)
- ❑ NICL had 7MW of captive power plant (Gas) and 4MW from grid.
- ❑ However, energy savings are expected after installation of 20MW thermal plant (70% coal + 30% Biomass). This plant has replaced above-mentioned expensive energy sources. Total current energy requirement for the plant is 16-17 MW.
- ❑ Coal is being sourced locally (from Jhimpir & Balochistan) and from Afghanistan.
- ❑ Caustic soda running on 100% capacity utilization at the moment. Caustic Soda is majorly used in-house for Oleo production.
- ❑ NICL is the only producer of Chlorinated paraffin wax in Pakistan.

Descon Oxychem Limited

Alfalah CLSA conducted an investor briefing for Descon Oxychem Limited (DOL) today to discuss Hydrogen Peroxide (HP) market and company's prospects. DOL is the market leader in the Hydrogen Peroxide market. Recently, DOL has also established its footprint in regional export markets. DOL supplies chemicals for textiles, food and beverage safety as well as other industrial and consumer sectors. We have entailed below the crux of management guidance along with some details about the company's performance.

Impressive performance in 9MFY23: DOL posted impressive results on the back of historic high hydrogen peroxide prices and impressive volumes. Topline of the company grew by ~78%YoY in 9MFY23 with 100% capacity utilization. Moreover, the company managed to pay off its debt in this high interest rate environment.

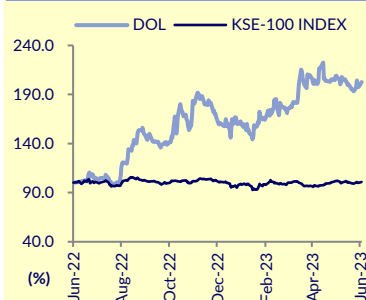
Note that 9MFY23 EPS clocked-in at PKR7.42 and gross/net margins were 43.1/25.1%, highest in the last 15 years. Currently, net cash stands at ~PKR500Mn (PKR2.9/sh). The company plans to maintain consistent dividends (9MFY23 DPS:2.0). 4QFY23 might be relatively slow due to seasonality factor.

Briefing updates

- ❑ The company is continuously focusing on export markets to hedge against local price fluctuations. Note that the company is making higher margins on exports due to tax benefit. DOL has exported 2,897 vs 467 tons of hydrogen peroxide in FYTD'23 vs SPLY.
- ❑ Central Asia has been the main focus for exports. Other significant opportunities lie in Middle East (Esp. mining sector).
- ❑ Hydrogen Peroxide's local price is USD500-550/ton. Bangladesh's HP price is USD500/ton
- ❑ DOL sells 50%/50% in North/South.
- ❑ Hydrogen peroxide domestic market size is 100-110k tons. DOL is operating at full capacity (~42,000 tons/annum), Sitara Peroxide's plant is unreliable and Engro's plant is expected to come online in ~1-1.5 years.
- ❑ DOL is focusing on product development in order to reduce reliance on textiles. Note that textile sector is the largest customer of the company (50-60% of volumes). DOL has recently increased its capacity for food grade HP from 1,000 tons to 5,000 tons/annum. This segment commands pricing premium and has lower costing. The company is aiming to focus on food grade export too.
- ❑ DOL was quite proactive to prepay its long-term debt, insulating itself from massive interest rate hikes. (Debt-to-Equity ratio declined to 19.4% in FY22 from 58.1% a year ago).
- ❑ DOL has implemented some cost reduction incentives by supplying more in bulk (~50%) as well as selling most of the product (~70%) at ex-factory prices.

Symbol	DOL
Price PKR	25.8
Bloomberg	DOL PA
Reuters	DOL.PSX
Mkt. cap USD mn	15.8
No. of Shares mn	175.0
3M ADV USD mn	0.05

DOL vs KSE100 performance



Source: PSX, Bloomberg

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