

BMA Flashnote

Petrochemicals: PVC margins trends lower, PTA delta climbs

Monday, October 07, 2019

Chemical sector performance

	3M	6M	12M
Absolute %	-10%	-15%	-21%
Relative to KSE %	-5%	-3%	-4%

Source: BMA Research

- Primary margins for the petrochemical chain depicted meager correction compared to the previous week. Latest quotes suggest core delta of PolyVinyl Chloride (PVC) has settled 2% WoW lower at USD465/ton.
- PVC prices traded at the level of USD860/ton, a decline of 1% WoW, for the week compared to USD870/ton previously. Further, ethylene prices stood stable during the week at USD790/ton.
- On the other hand, Purified Terephthalic Acid (PTA) - Paraxylene (PX) margin for the week rose 4% or USD5/ton WoW, to USD145/ton, despite lower PTA rates.
- PTA prices were reported at USD650/ton, down 1% WoW, while PX rates stood 2% WoW lower at USD760/ton.
- Polyester Staple Fibre (PSF) margins contracted by 3% WoW to USD322/ton largely owing to lower PSF prices despite weakness in feedstock rates. Mono-Ethylene Glycol (MEG) prices were seen at USD605/ton, down USD5/ton or 1% WoW while PTA declined by 1% WoW. PSF prices were noted at USD1,093/ton, down 1% WoW.
- The latest data on margin remains neutral for Engro Polymer and Chemicals Pakistan Ltd (EPCL) and Lotte Chemical Pakistan Ltd (LOTICHEM) as they continue to trade sufficiently above their long term average deltas, respectively.

Chemical Margins Oct'19

USD/ton	27-Sept'19	04-Oct'19	WoW	Sept'19	Oct'19	MoM	YoY
PVC	870	860	-1%	873	860	-1%	1%
Ethylene	790	790	0%	806	790	-2%	-22%
Core-Delta	475	465	-2%	469	465	-1%	34%
PTA	655	650	-1%	661	650	-2%	-36%
PX	775	760	-2%	771	760	-1%	-40%
PTA-margin	140	145	4%	148	145	-3%	-12%
PSF	1,111	1,093	-2%	1,082	1,093	1%	-23%
PTA	655	650	-1%	661	650	-2%	-36%
MEG	610	605	-1%	586	605	3%	-30%
PSF margin	334	322	-3%	307	322	5%	32%

Source: Bloomberg, BMA Research

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Buy	>20% expected total return
Neutral	10%-20% expected total return
Underperform	<10% expected total return

*Total stock return = capital gain + dividend yield

Old rating system

Overweight	Total stock return > expected market return + 2%
Marketweight	Expected market return \pm 2%
Underweight	Total stock return < expected market return - 2%

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)