

Aug 05, 2022

- ◆ LOTCHEM has unveiled its 2QCY22 financial results, wherein; the company has reported PAT of PKR 2.79 bn (EPS: PKR 1.84/share), surpassed our expectations on the back of higher expected effective tax rate (49% vs 63%) and lower net sales expectations by 17% (PKR 29.63 bn vs PKR 25.4 bn).
- ◆ LOTCHEM has declared interim cash dividend of PKR 4/share (40%).
- ◆ Company clocked in PAT of PKR 2.79 bn (EPS: 1.84/share) vs. PKR 963 mn (EPS: PKR 0.64/share), up by 1.89x YoY (+7% QoQ). The surge in earnings is primarily due to robust demand from textile sector, improved PTA-PX margins (+11%) along with favorable USD-PKR Parity (+10%) during 2QCY22.
- ◆ During 2QCY22, sales booked at PKR 29.63 bn against PKR 16.25 bn up by 82%YoY primarily due to improved volumetric sales and surge in international PTA prices by 41% YoY (+16%QoQ).
- ◆ The cost of sales has surged by 62% YoY recorded at PKR 23.6 bn as against PKR 14.6 bn SPLY, due to inflationary pressure on cost.
- ◆ Moreover, LOTCHEM's gross profit is up by 264%/50% YoY/QoQ. All in all, gross margin is improved by 50bps arrived at 20% in 2QCY22 on the back of hike in PTA-PX margins.
- ◆ During 2QCY22, finance cost is surged by 141%/160% YoY/QoQ, recorded at PKR 721 mn against PKR 299 mn SPLY.

PKR Million	2QCY22	2QCY21	YoYΔ%	1QCY22	QoQΔ%	1HCY22	1HCY21	YoYΔ%
Net sales	29,627	16,250	82%	20,332	46%	49,958	30,922	62%
Cost of sales	(23,631)	(14,602)	62%	(16,322)	45%	(39,952)	(27,010)	48%
<b>Gross profit</b>	<b>5,996</b>	<b>1,649</b>	264%	<b>4,010</b>	50%	<b>10,006</b>	<b>3,912</b>	156%
Admin Expense	(126)	(113)	12%	(125)	1%	(251)	(228)	10%
Other Expenses	(393)	(139)	183%	(276)	42%	(668)	(338)	97%
Other Income	458	309	48%	376	22%	834	587	42%
Operating Profit	5,901	1,677	252%	3,946	50%	9,847	3,875	154%
Finance cost	(721)	(299)	141%	(277)	160%	(998)	(201)	395%
Profit Before tax	5,180	1,378	276%	3,669	41%	8,849	3,673	141%
Taxation	(2,393)	(415)	477%	(1,054)	127%	(3,448)	(1,071)	222%
<b>Profit After tax</b>	<b>2,786</b>	<b>963</b>	189%	<b>2,615</b>	7%	<b>5,401</b>	<b>2,602</b>	108%
EPS	1.84	0.64		1.73		3.57	1.72	
Gross Margin	20%	10%		20%		20%	13%	
Net Profit Margin	9%	6%		13%		11%	8%	

Source: Company Accounts, WE Research

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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +15% from last closing price
HOLD	In between -15% and +15% from last closing price
SELL	Less than -15% from last closing price

**Equity Valuation Methodology**

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

**Risks**

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk