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EPCL: 3QCY26 Result Review — Margin compression drive losses

AKD Securities Limited

Engro Polymer & Chemicals Ltd. (EPCL) announced its 3QCY26 financial results, wherein the company reported loss of PkR1.3bn (LPS: PkR1.4) compared to a loss of PkR222mn (LPS: PkR0.2) in SPLY. The result came in below our expectations due to lower than anticipated gross margins.

- Company's revenue increased by 30%YoY to PkR26.1bn, attributable to higher PVC & Caustic Soda prices and higher offtakes amid provisional anti-dumping duties imposed on China and US.
- Gross margins declined to 2.4% during the quarter from 11.3% in SPLY, mainly attributable to decline in avg. PVC-Ethylene core margins.
- Operating expenses declined by 5%YoY to PkR2.0bn from PkR2.1bn in SPLY.
- Other income increased by 15x YoY to PkR527mn, attributable to 3x YoY higher avg. Cash & ST Investments.
- Finance cost surged 38%YoY to PkR2.0bn, mainly due to 35%YoY increase in avg. borrowings.
- Tax reversal came in at PkR295mn vs expense of PkR121mn in SPLY, attributable to DTL adjustments.
- We maintain our 'SELL' stance on EPCL as higher energy prices and lower core margins are likely to keep profitability under pressure. Our Dec'26 target price for EPCL is PkR28/sh.

EPCL: Income Statement (Consolidated)

PkRmn	3QCY26	3QCY25	YoY	2QCY26	QoQ	9MCY26	9MCY25	YoY
Sales	26,086	20,015	30%	17,075	53%	65,343	57,626	13%
COGS	25,448	17,762	43%	15,039	69%	60,126	54,031	11%
Gross Profit	637	2,254	-72%	2,036	-69%	5,217	3,595	45%
Gross margins	2.4%	11.3%		11.9%		8.0%	6.2%	
Opex	1,979	2,091	-5%	1,584	25%	1,979	2,091	-5%
Other Income	527	35	15x	1,746	-70%	2,694	249	11x
Finance Cost	1,989	1,438	38%	1,907	4%	5,679	4,430	28%
Taxation	(295)	121	n.m	(95)	3.1x	(349)	133	n.m
NPAT/LAT	(1,314)	(222)	5.9x	1,257	n.m	314	(3,452)	n.m
EPS/(LPS) -Diluted	(1.4)	(0.2)		1.0		0.3	(3.8)	

Source: PSX & AKD Research

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To arrive at our period end target prices, AKDS uses different

valuation techniques including:

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

New Rating Definitions

BUY > 15% expected total return

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