



EPCL key info

S/O (mn)	Market Cap (Rs bn)	Market Cap (US\$mn)
663.47	7.70	72.03

Shareholders	% Holdings
Engro Corporation	56.19%
International Finance Corporation	14.64%
Mitsubishi Corporation	10.24%

	% Return
1 Month	5.5%
3 Month	11.0%
6 Month	20.7%
12 Month	-2.4%



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EPCL Acquisition-The Way Forward, Minorities!!

Engro Polymer informed the Stock Exchange on 24th November 2015 regarding the announcement it received for the intention of acquisition of Engro Corporation's 56.19% shareholding (372.8mn Shares) of the company by A.T.S Synthetic (PVT) Ltd (ATS) along with persons acting in concert which include Nimir Chemical Ltd (NICL), Nisar Spinning Mills (Pvt) Ltd (NSM) and directors of NICL, NSM and ATS. Although voices for ENGRO Corp's stake sale in EPCL whispered in the market from quite some time but the formal announcement of intention for acquisition confirmed the voices.

However, we cannot determine the share purchase price, BUT regulations require the acquirer to send tender offers to the minority shareholders, to protect their rights. In additions, it also provides a direction through certain conditions to estimate the minimum offer price for minorities.

What's after the Announcement of Intention???

As per the Securities Act 2015 (Act) and Listed Companies (Substantial Acquisition of Voting Shares and Take-Overs) Regulations 2008 (Regulations), the acquirer (ATS) has 180 days to conduct due diligence and feasibility studies following the Announcement of Intention to acquire 56.19% holding of EPCL (Target). However, the SECP may upon the request of the acquirer and after being satisfied that the request is reasonable, extend the time period by a maximum of 90 days.

If the acquirer doesn't make an official public offer to all the shareholders of the Target Company in the stated time period, the public announcement of intention may be withdrawn.

Safeguarding Minorities!!!

ATS and ENGRO Corp. are allowed to sign a share purchase agreement of 56.19% shareholding at any negotiated price based on their feasibility studies according to the Act and Regulations. However, the law safeguards the minority shareholders, by making it a requirement for the acquirer to purchase the minimum remaining 50% of the float from the public through tender offer. If ATS and ENGRO Corp make a deal (of 372.8 mn shares) at a particular price, section 6 of the Regulation binds the acquirer to purchase

additional minimum 50% of the remaining float $((100\% - 56.19\%) * 50\%)$ i.e. 21.90% shareholding (145.3mn shares) from minority shareholders.

Minimum Offer Price for Minorities???

If the deal with Engro Corp. goes through, the price, at which the acquirer has to buy the minimum 50% of the remaining float i.e. 145.3mn shares from the minority shareholders, will be derived (based on conditions provided by the Act and Regulations) in order to protect the interest of minorities.

If the Target Company is **Liquid** – as the case applies with Engro Polymer and Chemicals Ltd. (EPCL), the following pricing conditions are applied (Highest Price amongst the following should be the Minimum Price of Offer to minorities)

Conditions	Description	Price	Assumptions
i)	Share Purchased Agreement	11.50	We cannot determine the exact Share Purchase Price, but we expect it to be at par or below the current market price due to higher Debt to Equity Multiples of 1.4x and the ENGRO Corp's willingness to sell its stake.
ii)	Highest Price paid by the Acquirer for acquiring the voting shares of the Target Company during six months prior to the date of Public Offer Announcement	9.32	Mr. Nadeem Nisar, Director of ATS (The Acquirer) holds 7,866,500 (1.18%) shares of EPCL. Considering the fact, that Mr. Nisar's name was not mentioned in the company register for Dec 2014. We believe the director purchased the shares this year, however, the year witnessed high trading volumes with the weighted average price range of 9.32 - 13.55, but to be conservative we take the lowest possible price. From 1 st Jan'15 to 25 th Nov'15, we have taken the weighted average price of these trading sessions, to make an assumption of the purchased price of the Director's stake.
iii)	The average share price of the Target Company as quoted on the stock exchange, with the highest traded volume during last six months preceding the Public Offer Announcement	11.52	We calculated the weighted average price by taking into account the volume and values of all trading days during six months preceding the public offer (Assumed Date 25th Nov'2015) with daily turnover above the daily average six months turnover. Please Note: This price could vary as the public announcement of offer is yet to be announced.
iv)	The Average Share Price of Target Company as quoted on the stock exchange with the highest traded volume, during four weeks preceding the date of Announcement of Intention	11.36	For the announcement of intention (24 th Nov'15), we calculated the weighted average price by taking into account the volume and values of all trading days during four weeks preceding the intention of announcement, with daily turnover above the daily average four weeks turnover.
v)	Price per Share calculated on the basis of net assets valued by a valuer whose name appears on the list of SBP approved list of valuers	7.76	The current Net Asset Value of the target company as of 3QTR 2015.

According to our current estimates, the fourth condition of the Act and Regulation derives a more appropriate minimum price of offer through tender to minorities, since this price is based on the Notice of Intention which has already been announced on 24th Nov 2015. However, as per the Act and Regulations the maximum price from the above conditions should be offered through tender. Since assumptions, are taken in condition (i), (ii) and (iii), we believe it's more appropriate to consider condition (iv) as the definitive minimum price of tender offer to minority shareholders.

3Q2015 Result Review

EPCL posted Net Loss of PkR379mn (LPS: PkR0.57) in 3Q15 against a Net Loss of PkR157mn (LPS: PkR0.24) in 3Q14.

Key Reason for the higher losses were 1) Reduced margins due to narrow PVC - Ethylene core delta, 2) Imposition of duty on primary raw material, 3) Higher raw material and gas prices – Low margins due to higher gas prices and 4) Lower caustic sales volume, due to lower production.

Pkr mn	3mo ending		%	3mo ending		%
	Jun-15	Sep-15		Δ	Sep-14	
Net revenue	5,716	4,647	-19%	5,244	4,647	-11%
Cost of sales	(5,300)	(4,335)	-18%	(4,421)	(4,335)	-2%
Gross profit	415	312	-25%	823	312	-62%
Distribution and marketing expenses	(293)	(279)	-5%	(322)	(279)	-13%
Administrative expenses	(182)	(150)	-17%	(184)	(150)	-18%
Other operating expenses	(78)	(125)	60%	(143)	(125)	-13%
Other income	24	6	-73%	10	6	-36%
Operating profit / (loss)	(113)	(235)	108%	185	(235)	-227%
Finance costs	(286)	(296)	4%	(396)	(296)	-25%
Profit / (Loss) before taxation	(399)	(532)	33%	(211)	(532)	152%
Taxation	73	153	109%	54	153	181%
Profit / (Loss) for the period	(326)	(379)	16%	(157)	(379)	142%
Earnings / (Loss) per share	(0.49)	(0.57)	16%	(0.24)	(0.57)	138%

Recommendation

For Investors' eyeing on the tender offer, we don't see any upside potential based on our estimates of PKR11.36 from the current market prices. The scrip currently trades at 1.49x price to book multiples. We advise investors to remain cautious on the scrip.



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