

ICI Pakistan Ltd (ICI PA)

ICI emerges as a potential bidder for Pakistan's sole PTA producer

ICI Pakistan Limited (ICI) has announced intention to acquire approximately 75.01% shareholding or (1,135.86mn shares) of Lotte Chemicals Pakistan Limited. A few weeks ago, ICI received a conditional bid from Morinaga Milk, Japan to acquire approximately 33.3% of NutriCo Morinaga Limited for US\$56.6mn. ICI owns 51% of NutriCo and its Board of Directors has already granted in-principal approval to move forward with divestment of 26.5% only. The total consideration for the 26.5% stake in NutriCo comes to an estimated c.PKR 9.5bn, with a one-off gain for ICI of c.PKR7.4bn. The intention to acquire LOTCHEM leads to strong likelihood of ICI skipping its year-end dividend, so as to fund the potential acquisition. In this regard ICI, may get further assistance from its parent group, which includes Lucky Cement (LUCK), to raise the additional capital for the acquisition of LOTCHEM.

Growth and synergies are likely outcome

Lotte is currently the sole producer of PTA in Pakistan with an active capacity of 500,000tpa. It is important to remember that in 1998, ICI initially commenced PTA business. However, during the year 2000, ICI demerged the business and sold it to Pakistan PTA Limited. In 2009, Lotte Worldwide Group acquired majority shareholdings in Pakistan PTA Limited and renamed it. In our [recent note](#), we mentioned that ICI can use the proceeds of their Morinaga stake sale to invest in inorganic avenues. LOTCHEM is a viable option as ICI has prior experience within the chemicals industry and originally, LOTCHEM was part of ICI. This, coupled with multiple synergies within the group (e.g. Gadoon Textile Mills), emphasize the rationale behind the interest.

Our back of the envelope estimates suggest that LOTCHEM trades at a 27% discount to its replacement cost of PKR32.5/share on yesterday closing. The stock hit upper cap in the last hour of trading session today.

LOTCHEM - Value on EV

EV/ton	USD/MT	309.43
Total Capacity	mmMT	0.51
Enterprise Value	PKRmn	35,752
ICI and Gatron intention to acquire share	%	75.01%
Total Consideration	PKRmn	26,817
Equity Value per share	PKR	23.61

Source: IMS Research

LOTCHEM - Value on Replacement Cost

Per ton Cost	USD/MT	426.43
Total Capacity	mmMT	0.51
Total Value of the existing plant	PKRmn	49,270
ICI and Gatron intention to acquire share	%	75.01%
Total Consideration	PKRmn	36,957
Equity Value per share	PKR	32.5

LOTCHEM - Enterprise Value

Market Cap	PKRmn	36,523
Debt	PKRmn	-
Cash + STI	PKRmn	15,771
Enterprise value	PKRmn	20,752
Land Cost (150 acres)	PKRmn	15,000
Capacity: LOTCHEM	mnMT	0.51
USD:PKR		228
LOTCHEM: EV/MT	USD/MT	180
LOTCHEM: EV+Land/MT	USD/MT	309

Source: IMS Research

Continued on the next page...

Ali Aziz Soorty

ali.soorty@imsecurities.com.pk

+92-21-111-467-000 Ext: 306

Recent Replacement Cost Proxy
HPCL-Mittal Energy Ltd (HMEL) - India

Planned Investment	USDmn	769
PTA Plant Capacity	mtpa	1.25
PTA expansion cost	USD/MT	615
PTA expansion cost w/ power	USD/MT	724

LOTCHEM Interview Takeaways: Nov'21

Capacity Addition Cost	USDmn	500
Capacity size	mnMT	0.85
Expansion cost	USD/MT	588
Land cost	USD/MT	88
Power cost	USD/MT	109
Total new setup cost	USD/MT	697
Blended setup cost (HPCL+Nov'21 interview)	USD/MT	711
Depreciation		40%
Blended setup cost (HPCL+Nov'21 interview)	USD/MT	426

Source: IMS Research

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
Neutral	Total return expectation of $> -5\%$ or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) Greater competition from imports for its Soda Ash and PSF segments, (ii) Nutrico Morinaga struggles to turn a profit, and (iii) negative regulatory change for its Pharmaceutical products

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