

Faysal Asset Management

Flash Note – Use of PX price in PTA Sales
Term Contract from 2013

November 16, 2012

Use of PX prices in PTA Sales Term Contract from 2013

Platts a leading global information provider of energy, petrochemicals and metals; and a premier source of benchmark price assessments for commodity markets has announced that Asian Purified Terephthalic Acid (PTA) producers have proposed to add Paraxylene (PX) price to their new pricing formula for selling PTA on term basis from next year.

It is pertinent to mention that PX is a key feedstock for PTA, and therefore most PTA producers believe that the raw material price should be considered in the pricing formula (for term contract).

During term negotiations for 2012, some PTA producers had proposed to use PX price for their PTA sales contracts. The proposal did not materialize due to strong resistance from end-users of PTA (i.e. PSF and PET producers). However, this time it is expected that the proposed use of PX price for the PTA sale contracts would transpire as the end-users seem to have no choice since majority of PTA producers have supported the pricing proposal.

The new formula will have 50% spot PTA price, while the remaining 50% will comprise the PX component which will take into account 50% Asian Contract Price and 50% Platts CFR Taiwan/China assessments. The new formula would reduce the PX cost pressures for the PTA producers and enhance PTA margins considerably.

Example:

PTA price = \$1,100/ton

PX Price = \$1,550/ton

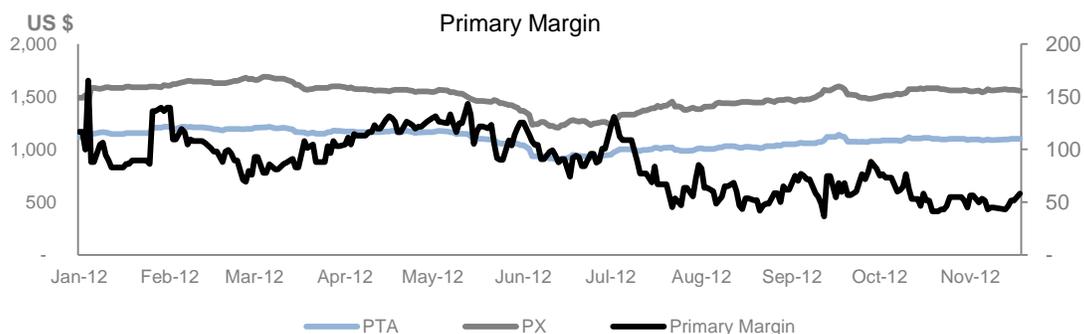
Previous Formula

PTA Sales Contract Price = PTA - 0.67PX
 = 1,100 - (0.67 × 1,550)
 = \$ 61.5

New Formula

PTA Sales Contract Price = (0.50PTA + 0.50PX) - (0.67PX)
 = (0.50 × 1,100 + 0.50 × 1,550) - (0.67 × 1,550)
 = \$ 286.5

Hence, the new formula would increase the PTA Sales contract price by \$ 225 i.e. 3.6x



In 2012, Asian PTA producers suffered from negative margins throughout 2012 due to high PX prices and PTA supply glut. Presently, upward margin revision is critical for the survival of PTA producers.

LOTTE Pakistan being the primary beneficiary in Pakistan will benefit considerably once revised PTA sales contract prices are implemented. The higher term contract price is expected to augment company's gross margins, in turn raising LOTPTA stock price level at the local bourse.