

# Day Break

Wednesday, 24 October 2018

## Sector Update

### IGI OMC Universe

#### Recommendation

(PKR/share)	TP	Recom.	Upside	D/Y	P/E (x)
PSO	340.6	BUY	39%	6.9%	5.8
HASCOL	345.5	BUY	24%	3.6%	16.2

#### EPS estimate for PSO

	1QFY19E	1QFY18	YoY	4QFY18	QoQ
EPS	6.8	12.9	-47%	5.7	18%
DPS	-	-		5.0	

#### EPS estimate for HASCOL

	3QCY18E	YoY	9MCY18E	YoY
EPS	3.69	75%	10.8	43%
DPS	-		-	

#### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Marketing Companies

### Exchange losses to hit PSO and HASCOL earnings amid lower volumes during Sep-18 quarter

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 27<sup>th</sup> Oct-18 to announce financial result for 1QFY19, where we expect PSO to post earnings of PKR 2.65bn (EPS PKR 6.77) down by 47%YoY,
- Hascol Petroleum Limited's (HASCOL) board meeting is schedule on 26<sup>th</sup> Oct-18 to announce financial results for 3QCY18 where we estimate HASCOL to register earnings growth of +75%YoY to PKR 5.19bn (EPS PKR 47.12) compared to PKR 0.31bn (EPS PKR 2.11) in the same period last year,
- We maintain 'BUY' call on PSO/HASCOL with our rolled over Jun-19 target price of PKR 340.6/share/ PKR 345.5/share offering +39%/+24% upside from last close. PSO is currently trading at FY19 P/E of 5.8x while HASCOL is trading at CY19 P/E of 16.2x.

#### PSO: Earnings to be marred by exchange losses and lower volumes

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 27<sup>th</sup> Oct-18 to announce financial result for 1QFY19, where we expect PSO to post earnings of PKR 2.65bn (EPS PKR 6.77) down by 47%YoY compared to PKR 5.03bn (EPS PKR 12.86) in the same period last year. We attribute the decline in the earnings to a) exchange losses estimated at PKR 200mn only as exchange losses are passed on through increase in FO price and higher FE 25 borrowings, b) likely net inventory losses of PKR 609mn mostly due on MS due to lower inventory days whereas we expect inventory gains on HSD, c) higher effective tax rate of nearly 40% and, d) 84%/32%/13%YoY drop in FO/HSD/MS volumes.

On sequential basis, earnings are expected to increase by +18%QoQ during 1QFY19 likely owing to heavy exchange losses, +2%QoQ rise in MS sales and higher tax rate of 47%. This is despite 75%QoQ and 24%QoQ drop in FO and HSD sales owing to lower demand from WAPDA and Eid/Muharram Holidays.

Exhibit:

#### PSO Financial Highlights

PKRmn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Net Sales	254,691	258,645	-2%	312,261	-18%
Gross Profit	7,324	9,190	-20%	10,724	-32%
Operating Costs	4,020	3,385	19%	5,124	-22%
Other Op. Income	2,416	2,213	9%	2,416	0%
EBIT	5,721	8,018	-29%	8,017	-29%
Finance Cost	1,432	756	89%	1,437	0%
Profit Before Taxation	4,417	7,420	-40%	6,727	-34%
Taxation	1,767	2,390	-26%	4,491	-61%
Profit After Taxation	2,650	5,029	-47%	2,237	18%
<b>EPS (PKR)</b>	6.77	12.86		5.72	
DPS (PKR)	-	-		-	

Source: IGI Research, Company Financials

No of Shares: 391.23mn

**HASCOL: Earnings to lift by +84%YoY to PKR 47.12/share in 4QFY18**

Hascol Petroleum Limited's (HASCOL) board meeting is scheduled on 26<sup>th</sup> Oct-18 to announce financial results for 3QCY18 where we estimate HASCOL to register earnings growth of +75%YoY to PKR 5.19bn (EPS PKR 47.12) compared to PKR 0.31bn (EPS PKR 2.11) in the same period last year. We attribute this substantial growth in the earnings to a) rise in FO prices and stagnant FO sales, b) increase in MS and HSD margins which contributes nearly 70%-75% of total gross profit and, c) lower discounts on retail fuel segment. On sequential basis, earnings are expected to rise by +79%QoQ owing to hefty exchange loss booked in 2QCY18 despite 21%/17%/13%QoQ drop in HSD/MS/FO sales. This brings total 9M CY18 earnings to PKR 1.56bn (EPS PKR 10.79) up by +43%YoY as against PKR 1.10bn (EPS PKR 7.57) in the same period last year.

Exhibit:

**HASCOL Financial Highlights**

PKRmn	3QCY18E	3QCY17	YoY	9M CY18E	9M CY17	YoY
Net Sales	65,345	46,494	41%	187,226	124,236	51%
Gross Profit	2,338	1,392	68%	8,152	4,442	84%
S&D Expense	824	622	32%	2,485	1,790	39%
Admin Expense	240	166	45%	686	467	47%
Other Op. Income	80	109	-27%	279	243	15%
EBIT	1,354	713	90%	5,260	2,428	117%
Finance Cost	227	126	80%	663	389	70%
Profit Before Taxation	877	428	105%	2,493	1,858	34%
Taxation	342	123	178%	930	762	22%
Profit After Taxation	535	305	75%	1,563	1,096	43%
<b>EPS (PKR)</b>	<b>3.69</b>	<b>2.11</b>		<b>10.79</b>	<b>7.57</b>	
DPS (PKR)	-	-		4.38	3.50	

Source: IGI Research, Company Financials

No of Shares: 144.82mn

**Recommendation**

We maintain **'BUY'** call on PSO/HASCOL with our rolled over Jun-19 target price of PKR 340.6/share/ PKR 345.5share offering +39%/+24% upside from last close. PSO is currently trading at FY19 P/E of 5.8x while HASCOL is trading at CY19 P/E of 16.2x.

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