

# Day Break

Monday, 03 August 2020

## Company Update

### HASCOL Key financial highlights

| PKRbn          | CY15 | CY16 | CY17 | CY18  | CY19   |
|----------------|------|------|------|-------|--------|
| Profit/(loss)  | 1.1  | 1.2  | 1.4  | (0.1) | (25.8) |
| DPS            | 5.0  | 7.0  | 7.0  | -     | -      |
| LT Liabilities | 0.6  | 3.9  | 4.0  | 4.6   | 3.0    |
| ST Borrowing   | 1.4  | 3.9  | 6.9  | 18.9  | 37.8   |
| Equity         | 5.8  | 6.1  | 10.3 | 12.5  | (12.5) |

### Volumes (mn Tons)

|       | CY15 | CY16 | CY17 | CY18 | CY19 |
|-------|------|------|------|------|------|
| MS    | 0.30 | 0.53 | 0.88 | 0.82 | 0.59 |
| HSD   | 0.47 | 0.74 | 1.19 | 1.13 | 0.61 |
| FO    | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 |
| Total | 1.27 | 1.85 | 2.66 | 2.54 | 1.42 |

## Oil & Gas Marketing Companies

### HASCOL: Auditors highlight going concern; Management mentions uncertainty on future profits

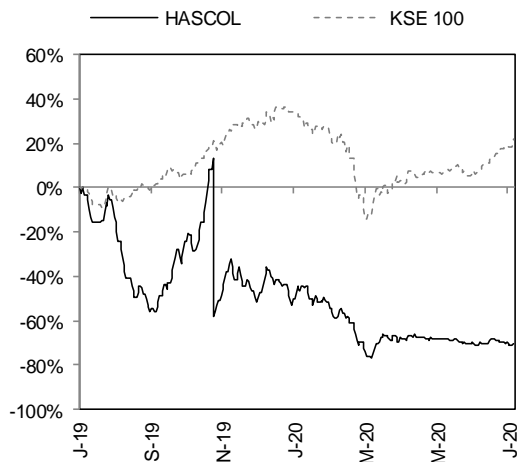
- ✓ HASCOL reported loss of PKR 26bn in CY19 making equity negative by PKR 14.7bn whereas right subscription reduces the same to PKR 6.7bn.
- ✓ Auditors highlight going concern.
- ✓ Management mentions uncertainty on future profits.
- ✓ Our estimates for 1HCY20 suggest additional losses of PKR 5.4bn making equity further negative to PKR 12.1bn.
- ✓ Total borrowings stand at PKR 96bn with PKR 46bn owed to financial institutions.
- ✓ Company appears to be facing challenges in attracting and retaining talent with frequent changes in top management (CEO and CFO).
- ✓ We place HASCOL under review until further clarity on Company's future.

### HASCOL reported loss of PKR 26bn in CY19 making equity negative by PKR 14.6bn; right subscription reduces the same to PKR 6.7bn

Hascal Petroleum Limited (HASCOL) published its annual report wherein it reported a loss of PKR 11.94bn (Diluted @999.12mn LPS: PKR 11.95) making full year loss of PKR 25.75bn (Diluted @999.12mn LPS: PKR 25.78) down by 209xYoY.

Consequent to the aforesaid losses, equity of the Company became negative by PKR 14.7bn. The Company accounted for PKR 5.7bn received as share deposit money out of total right issue of PKR 8.0bn. Resultantly, equity as at Dec-19 stood at PKR 8.9bn. After taking into account remaining right subscription of PKR 2.3bn that was received in Jan-20, the equity of the Company still stands at negative PKR 6.7bn.

Exhibit: Relative price performance to KSE-100



Source: NEPRA & IGI Research

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### Exhibit: Financial Highlights

| PKRmn                             | 4QCY19         | 4QCY18        | YoY   | CY19           | CY18          | YoY  |
|-----------------------------------|----------------|---------------|-------|----------------|---------------|------|
| Net Sales                         | 43,475         | 49,771        | -13%  | 154,875        | 233,244       | -34% |
| Gross Profit                      | (2,019)        | 2,064         | n/m   | (1,851)        | 10,707        | n/m  |
| S&D Expense                       | (109)          | 1,270         | n/m   | 4,078          | 3,539         | 15%  |
| Admin Expense                     | (42)           | 235           | n/m   | 818            | 883           | -7%  |
| Other Income                      | 217            | 186           | 16%   | 511            | 527           | -3%  |
| EBIT                              | (1,651)        | 745           | n/m   | (6,237)        | 6,812         | n/m  |
| Finance Cost                      | 2,452          | 542           | 4.5x  | 7,467          | 1,324         | 464% |
| Other Charges                     | 2,467          | 117           | 21.1x | 8,791          | 1,094         | 704% |
| Exch. (loss)/gain                 | 54             | (1,386)       | n/m   | (2,393)        | (4,208)       | -43% |
| PBT                               | (6,516)        | (1,299)       | 402%  | (24,887)       | 186           | n/m  |
| Taxation                          | 5,425          | 1             | 9808x | 866            | 309           | 180% |
| PAT                               | (11,941)       | (1,300)       | 819%  | (25,753)       | (123)         | 209x |
| <b>EPS (PKR) @999.12mn shares</b> | <b>(11.95)</b> | <b>(1.30)</b> |       | <b>(25.78)</b> | <b>(0.12)</b> |      |
| DPS (PKR)                         | -              | -             |       | -              | -             |      |

Source: IGI Research, Company Financials

No of Shares: 999.12mn

### **Auditors highlight going concern; Management mentions uncertainty on future profits**

One of the major highlights during 4QCY19 was that auditors have highlighted material uncertainty on going concern of the Company.

***Extract from Audit Report:*** We draw attention to note 1.2 of the financial statements which states that the company has incurred a net loss of Rs. 25,874 (2018: Rs. 215) million, resulting in accumulated (losses)/profit of Rs. (25,189) (2018: 585) million as of the financial position date. Further, as of that date the current liabilities of the Company exceeded its current assets by Rs. 43,403 (2018: 9,069) million. As stated in note referred above, these conditions, along with other matters, **indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continue as going concern.** Our opinion is not modified in respect of this matter.

The management in note 1.2 of the financial statements has confirmed the auditors view while stating certain plans and measures taken to improve the liquidity and financial position of the Company. However, the stated plans mostly cover matters relating to liquidity management and funding, and do not comment on company's future profitability.

At the same time, the management in note 9.1 of the financial statements has mentioned uncertainty in availability of future taxable profits based on their financial projections for the next five years, due to which they have reversed the entire amount of deferred tax asset that was recognized till Sep-19.

The note in Dec-19 states as follows:

***Note 9.1:*** Deferred tax asset of Rs. 6,376 million has not been recognised in these unconsolidated financial statements **due to uncertainty in availability of future taxable profits based on financial projections of future five years.** However, in the future years and based on the availability of taxable profits, unutilized deferred tax asset will be recognized.

... Whereas the same note in Sep-19 stated as follows:

***Note 21.1:*** The Company has recorded deferred tax assets of Rs. 4,604 million which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the company would be able to set off the profits earned in those years against taxable temporary difference relating to prior year.

The above is a major shift in management's view on future profitability of the Company for at least next five years.

### Our estimates for 1HCY20 suggest additional losses of PKR 5.4bn making equity further negative to PKR 12.1bn...

Based on our estimates of a loss of PKR 5.4bn in 1HCY20, we project HASCOL's equity to stand at negative PKR 12.1bn as at Jun-20.

#### Exhibit: HASCOL Shareholder's equity

|   | PKR mn          |
|---|-----------------|
| Share capital   | 1,991           |
| Reserves  | (20,690)        |
| Surplus on revaluation  | 4,033           |
| <b>Shareholder's equity as at Dec-19 before right share deposit</b> | <b>(14,666)</b> |
| Right share deposit   | 5,752           |
| <b>Shareholder's equity as at Dec-19</b>                            | <b>(8,914)</b>  |
| Remaining right share deposit                                       | 2,248           |
| <b>Shareholder's equity after right subscription</b>                | <b>(6,666)</b>  |
| Expected loss in 1HCY20*  | (5,426)         |
| Estimated shareholders equity as at Jun-20*                         | (12,092)        |

Source: IGI Research, Company financials

\* IGI Estimate

#### Exhibit: HASCOL Reserves from Dec-13 to Sep-18

|  | PKRmn        |
|--|--------------|
| Balance Reserve as at Dec-13           | 426          |
| Profit during Jan-2013-Sep-2018        | 5,897        |
| Dividends*                             | (3,144)      |
| Unappropriated profits as at Sep-18**  | 3,179        |
| Share premium as at Dec-18             | 4,767        |
| Re-measurement Surplus as at Dec-17*** | 323          |
| Reserves as at Sep-18**                | 8,269        |
| <b>Reported Reserves as at Sep-18</b>  | <b>8,313</b> |

| *Total Dividend paid reported by Company    | PKRmn        |
|---|--------------|
| 2018  | 507          |
| 2017  | 929          |
| 2016  | 845          |
| 2015  | 573          |
| 2014  | 290          |
| <b>Total Dividend paid during 2014-2018</b> | <b>3,144</b> |

Source: IGI Research, Company Financials

\*\* IGI Estimates based on reported numbers

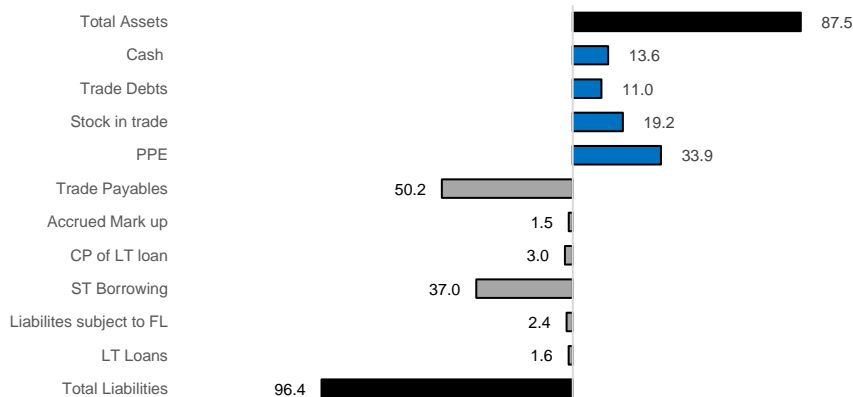
\*\*\* Breakup of reserves not available for Sep-18

### ... Whereas total borrowings stand at PKR 96bn with PKR 46bn owed to financial institutions

As per the management, the Company is in the process of re-profiling its long term loans and has renewed existing facilities with the banks. Moreover, the Company also expects to have sufficient cash resources in the next twelve months to continue its operation. Including trade payables, total liabilities stand at PKR 96bn out of which 46bn is owed to financial institutions while PKR 30bn is owed to Vitol. However, with total liabilities owed to financial institutions standing at PKR 46bn, we believe that HASCOL will likely face severe liquidity issues in debt repayment and servicing.

We note that the Company's accumulated reserves at the time of listing in 2013 stood at PKR 426mn. The company thereafter continued to report profits till Sep-18 when the accumulated reserves had risen to PKR 8.3bn. Therefore, the Company was able to generate profits of PKR 5.9bn (*refer Exhibit: HASCOL Reserves from Dec-13 to Sep-18*) between 2013 and 2018 before it reported losses in 4QCY18 onwards. Accordingly, we foresee considerable challenges in the Company being able to reduce its liabilities through profitability.

#### Exhibit: HASCOL total assets and liabilities break up (PKRbn)



**Frequent changes in top management**

To recall, subsequent to the right issue, the Chief Executive as well as Chief Financial Officer of the Company were replaced in Feb-20. However, the newly appointed Chief Executive ceased to be associated with the Company in Apr-20 whereas, the appointed Chief Financial Officer also departed in Jul-20. In light of the above, it appears that the Company is facing challenges in attracting and retaining talent.

**We place HASCOL under review until further clarity**

In light of substantial losses, negative equity, auditors highlighting going concern issues, management's uncertainty on future profits, further losses expected in 1HCY20 as per our estimates, highly leveraged book and frequent management changes, we have placed HASCOL under review until further visibility on Company's future.

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