

Day Break

Monday, 09 October 2017

Sector Update

Revision in OMC Margin

PSO

PKR/Share	FY18	FY19	TP
Old EPS	65.03	65.19	511.1
Revised EPS	65.95	66.16	527.3
% Change	1.4%	1.5%	3.2%

HASCOL

PKR/Share	CY17	CY18	TP
Old EPS	13.83	16.59	389.4
Revised EPS	13.89	17.21	397.8
% Change	0.4%	3.7%	2.2%

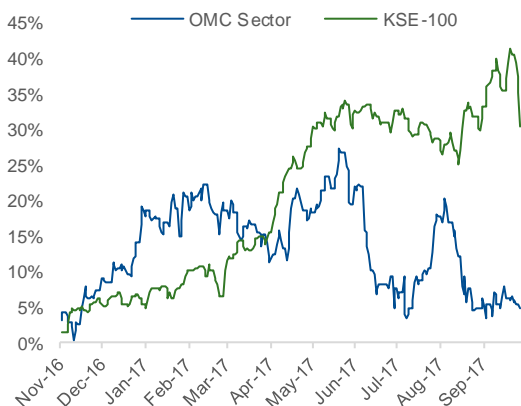
OMC Margin Revised

PKR/ltr	FY17	FY18	Change
MS	2.41	2.55	5.8%
HSD	2.41	2.55	5.8%
CPI Inflation	4.16%	-	-

Dealer Margin revised

PKR/ltr	FY17	FY18	Change
MS	3.16	3.35	6.0%
HSD	2.67	2.86	7.1%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas – Marketing Companies

OMC and Dealer Margins Revised Upwards for MS; HSD Deregulated

- In a meeting held by Economic Coordination Committee (ECC) on Friday, 6th Oct-2017, the Committee approved increase in the OMC and dealer margin for Motor Spirit (MS) during the period FY18.
- The margin for MS have been increased by PKR 0.14/ltr to PKR 2.55/ltr – slightly above our initially assumed margin of PKR 2.51/ltr. The added differential of PKR 0.4/ltr from our estimated to actual, in our view is granted to compensate OMC's for the delay of nearly 5months in margin revision.
- We believe, though the price of HSD has been deregulated, OMCs and dealers will not have much room to maneuver the prices as the Government will review the market response after every 3months
- We maintain our over-weight stance on OMCs with HASCOL and PSO as our top picks. We have a **'BUY'** call on HASCOL and PSO with our Jun-18 target price of PKR 398/share and PKR 527/share, respectively. HASCOL and PSO are currently trading at CY18F and FY18F P/E of 15.5x and 6.7x, respectively.

ECC Approved margin revision for MS, while HSD prices deregulated

In a meeting held by Economic Coordination Committee (ECC) on Friday, 6th Oct-2017, the Committee approved increase in the OMC and dealer margin for Motor Spirit (MS) during the period FY18. Moreover the committee further decided to deregulate High-Speed Diesel (HSD) prices, which is the first time Government of Pakistan (GOP) has given up its power to fix HSD prices. However, GOP will be reviewing the decision after every 3months. ECC has decided that OMCs would add fuel marker within six months at storage depots to avoid adulteration and OGRA will monitor OMC's stock position, dealer's inventory and 'fuel marker system' under devised mechanism.

MS margins revised slightly above expectation

The margin for MS have been increased by PKR 0.14/ltr to PKR 2.55/ltr – slightly above our initially assumed margin of PKR 2.51/ltr. The added differential of PKR 0.4/ltr from our estimated to actual, in our view is granted to compensate OMC's for the delay of nearly 5months in margin revision. Moreover dealer margin has also been revised upwards by PKR 0.19/ltr to PKR 3.16/ltr, bringing total margin increase to PKR 0.33/ltr.

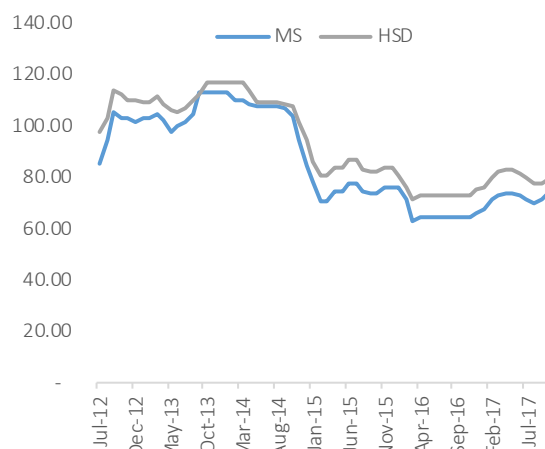
Hascol to stand as a major beneficiary of MS margin revision

As a result of increase in OMC margin for MS, we expect HASCOL to stand as prime beneficiary as of Jun-17 ending MS contributes nearly 45% of the total gross profit compared to 26%, 23% and 22% for SHEL, PSO and APL, respectively.

HSD prices deregulated; competition and government watch leaves limited room to increase margins

We believe, though the price of HSD has been deregulated, OMCs and dealers will not have much room to maneuver the prices as the Government will review the market response after every 3months. Furthermore, with increasing competition an unreasonable increase in price would result in loss of market share for OMCs. We believe as PSO being the market leader in terms of volumes, the margins set by PSO will be a followed by smaller OMCs in order to sustain their market shares.

Exhibit: Historical MS and HSD price (PKR/ltr)



Historical OMC Margins

PKR/ltr	FY14	FY15	FY16	FY17	FY18
MS	2.24	2.35	2.35	2.41	2.55
HSD	1.78	2.35	2.35	2.41	2.55

Historical Dealers Margins

PKR/ltr	FY14	FY15	FY16	FY17	FY18
MS	2.78	3.08	3.08	3.16	3.35
HSD	2.33	2.50	2.60	2.67	2.86

HSD margin to remain in-line with MS for the time being

We have assumed HSD margins increase to remain in line with MS at PKR 2.55/ltr for FY18 as it has been the case previously. The margin increase over and above PKR 2.55/ltr will be difficult owing to rising competition. However deregulation would allow OMCs some cover against volatility in international oil prices as OMCs will set their cost on weighted average price.

Likewise MS, Hascol stands as a major beneficiary of HSD margin revision

Likewise, we highlight HASCOL to be prime beneficiary of any increase in OMC margins for HSD as well, considering it contribute nearly 52% to the company's gross profit compared to 30%, 29% and 22% for PSO, APL and SHEL, respectively.

Earnings revised upward by 1%-2% over the next 5 years, with HASCOL in top spot

We have revised upwards our earnings for PSO and HASCOL by nearly 1%-2% over the next 5 years on the back of additional increased of PKR 0.04/ltr above expectation of PKR 0.10/ltr. As a result, we have revised upwards our earnings estimates for HASCOL by PKR 0.06/share and PKR 0.62/share for CY17 and CY18, respectively. The incremental impact constitutes nearly 0.4% and 4% of CY17 and CY18 earnings, respectively. For PSO, we have revised our earnings estimates by PKR 0.67/share and PKR 0.97/share for FY18 and FY19, respectively. The incremental earnings contribute nearly 1% and 1.5% of total earnings in FY18 and FY19, respectively. As a result we have revised our target prices for HASCOL and PSO up by nearly 2% and 3% to PKR 398/share and PKR 527/share, respectively.

Recommendation

We maintain our over-weight stance on OMCs with HASCOL and PSO as our top picks. We have a 'BUY' call on HASCOL and PSO with our Jun-18 target price of PKR 398/share and PKR 527/share, respectively. HASCOL and PSO are currently trading at CY18F and FY18F P/E of 15.5x and 6.7x, respectively.

Source: Company Financials, IGI Research, PSO

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Jun – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762