

# Day Break

Thursday, 26 October 2017

## COMPANY UPDATE

### HASCOL PETROLEUM LIMITED

#### OIL & GAS MARKETING COMPANIES

<b>Recommendation</b>	<b>BUY</b>
Target Price:	320.3
Last Closing: 25-Oct-17	287.9
Upside:	11.2
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-17

#### Market Data

Bloomberg Tkr.	HASCOL PA
Shares (mn)	144.8
Free Float Shares (mn)	72.4
Free Float Shares (%)	50.0%
Market Cap (PKRbn   USDmn)	41.7   395.8
Exchange	KSE 100
<b>Price Info.</b>	90D 180D 365D
Abs. Return	(15.0) (17.9) 11.0
Lo	254.3 254.3 250.5
Hi	348.4 389.4 389.4

#### Key Company Financials

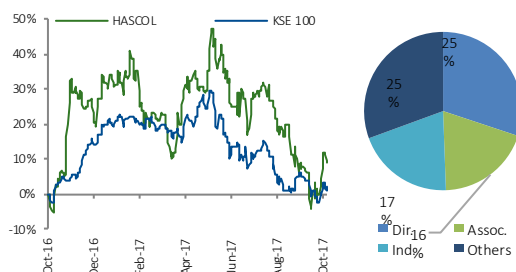
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	99.5	137.3	154.4	175.4
Net Income	1.2	1.6	2.0	2.6
EPS (PKR)	8.4	11.2	14.0	17.8
DPS (PKR)	7.0	8.0	9.0	12.0
Total Assets	44.6	58.6	62.4	68.9
Total Equity	6.1	10.5	11.2	12.0

#### Key Financial Ratios

ROE (%)	19.9	15.5	18.1	21.5
P/E (x)	34.3	25.6	20.6	16.2
P/B (x)	6.8	4.0	3.7	3.5
DY (%)	2.4	2.8	3.1	4.2

#### Relative Price Performance & Shareholding



#### About the Company

The principal activities of the Company are procurement, storage and marketing of petroleum and related products. Company is involved in marketing and distribution of (Mogas), HSD, FO, Jet Fuel (JP-1), Kerosene, CNG, LPG, Petrochemicals and Lubricants.

Source: Bloomberg, PSX & IGI Research

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## Oil & Gas – Marketing Companies

### HASCOL: EPS to clock in at PKR 4.02 in 3QCY17 Driven by Substantial Growth in Volumes

- Hascol Petroleum Limited (HASCOL) board meeting is scheduled on 30<sup>th</sup> Oct-17 to announce financial results for 3QCY17. We expect the company to report earnings of PKR 485mn (Basic EPS PKR 4.02) in 3QCY17, up by +66%YoY;
- Total sales for HASCOL leaped up by +50%YoY to 0.73mn Ton during 3QCY17 as compared to 0.49mn Ton in the same period last year. This substantial growth in volumes was led by +69%YoY rise in MS volumes (industry growth of +13%YoY) and +82%YoY increase in HSD sales (industry growth of +24%YoY);
- We maintain our **“BUY”** call on HASCOL with our Dec-17 target prices of PKR 320/share (ex-right) offering +11% upside from its last closing. HASCOL is currently trading at CY17E/CY18F P/E of 25.6x/20.6x.

#### Earnings to clock in at PKR 4.02/share in 3QCY17, up by +66%YoY...

Hascol Petroleum Limited (HASCOL) board meeting is scheduled on 30<sup>th</sup> Oct-17 to announce financial results for 3QCY17. We expect the company to report earnings of PKR 485mn (Basic EPS PKR 4.02) in 3QCY17, up by +66%YoY as compared to PKR 292mn in the same period last year. We attribute this substantial growth in earnings on the back of +50%YoY rise in total volumes led by +69%/+82%YoY increase in MS/HSD sales. Dilution in earnings growth is expected to emanate from discounts offered and an estimated inventory loss of PKR 27mn. To highlight, we estimate effective tax to remain on the higher side at 48%.

#### ...Taking 9MCY17 EPS to PKR 10.57, up by +41%YoY

Earnings for 9MCY17 are estimated to increase by +41%YoY to PKR 1.3bn (EPS PKR 10.57) as compared to PKR 0.9bn (EPS PKR 7.49) in the same period last year primarily owing to 66%/+62%/+5%YoY jump in MS/HSD/FO sales. Effective tax of 46% in 9MCY17 compared to 42% in the same period last year is expected to dilute earnings for 9MCY17.

Exhibit:

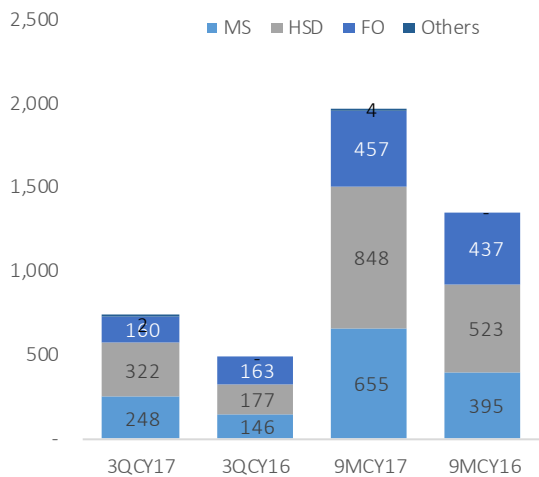
#### HASCOL Financial Highlights

PKRmn	3QCY17E	3QCY16	YoY	QoQ	9MCY17E	YoY
Net Sales	49,019	26,894	82%	14%	126,762	80%
Gross Profit	1,779	1,175	51%	10%	4,829	44%
S&D exp	631	439	44%	0%	1,798	49%
Admin Exp	162	122	33%	6%	463	22%
Other Op. Income	62	61	0%	-8%	195	29%
EBIT	1,048	675	55%	15%	2,763	45%
Finance Cost	126	108	17%	-15%	389	22%
Profit Before Taxation	933	563	66%	23%	2,363	53%
Profit After Taxation	485	292	66%	17%	1,276	41%
<b>EPS (PKR)</b>	<b>4.02</b>	<b>2.42</b>			<b>10.57</b>	
<b>Diluted EPS (PKR)</b>	<b>3.35</b>	<b>2.01</b>			<b>8.81</b>	
DPS (PKR)	-	-			-	

Source: IGI Research, Company Financials

Shares mn: 144.8 mn

**Exhibit: HASCOL volumes (000' M Ton)**



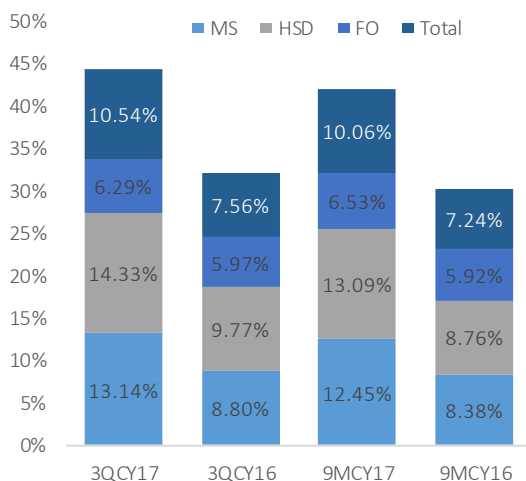
**Total Volumes up by +50%YoY in 3QCY17**

Total sales for HASCOL leaped up by +50%YoY to 0.73mn Ton during 3QCY17 as compared to 0.49mn Ton in the same period last year. This substantial growth in volumes was led by +69%YoY rise in MS volumes (industry growth of +13%YoY) and +82%YoY increase in HSD sales (industry growth of +24%YoY). FO sales declined by 2%YoY to 0.16mn Ton during 3QCY17 (industry volumes down by 7%YoY).

**Outlook**

We expect higher growth in HASCOL’s volumes to drive earnings going forward based on aggressive expansion in storage facilities and retail outlets. Under the expansion strategy planned by the company, storage facility at Port Qasim, Kotla Jam and Hub with storage capacity of 124,600MT for MS and HSD are expected to be completed by Dec-17, while storage facility for FO at Port Qasim with a capacity of 112,000MT is expected to be completed by Sep-18. Storage facility at Keamari with a capacity of 30,000MT of Motor gasoline has been completed, which should remove dependence of HASCOL on other OMCs and ease supply chain management. Extension of storage capacity at Machike, Shikarpur and Dailatpur has also been completed. As a result of this, we expect volumes to surge massively, increasing the market share to 12%/11% for MS/HSD by FY18F as compared to 3% for each in FY14.

**Exhibit: HASCOL - MS, HSD, FO market share**



**Recommendation**

We maintain our “BUY” call on HASCOL with our Dec-17 target prices of PKR 320/share (ex-right) offering +11% upside from its last closing. HASCOL is currently trading at CY17E/CY18F P/E of 25.6x/20.6x.

Source: Company Financials, IGI Research

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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**Time Horizon:** Dec - 2017

**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)

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