

Day Break

Thursday, 12 April 2018

Sector Update

IGI OMC Universe

Recommendation

	TP (PKR/share)	Recom.	Upside	P/E
PSO	385.2	BUY	14.1%	7.1
APL	677.1	BUY	11.6%	9.9
HASCOL	327.9	BUY	22.8%	30.5

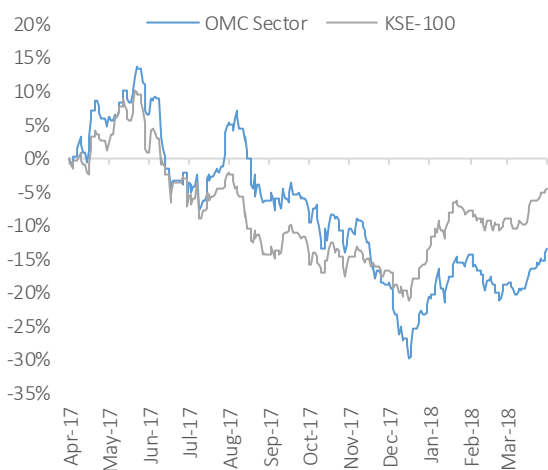
EPS estimate for 3QFY18

	3Q/1Q18E	YoY	9M/1Q18E	YoY
PSO	7.67	-40%	33.81	-22%
APL	17.18	18%	51.06	-3%
HASCOL	2.15	-17%	2.11	2%

DPS estimate for 3QFY18

	3Q/1Q18E	2QFY17	9M/1Q18E	9M/1Q17
PSO	1.5	1.5	3.0	3.0
APL	-	-	15.0	15.0
HASCOL	-	-	1.5	1.5

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 Sector Earnings to drop by 26%YoY in 3QFY18

- IGI OMC universe earnings are expected to decline by 26%YoY in 3QFY18 to PKR 4.24bn compared to PKR 5.72bn in the same period last year,
- We expect Pakistan State Oil Company Limited (PSO) to post earnings of PKR 2.50bn (EPS PKR 7.67) down by 40%YoY compared to PKR 4.14bn (EPS PKR 12.70) in the same period last year,
- Attock Petroleum Limited's (APL) board meeting is scheduled on 16th Apr-18 to announce financial result for 3QFY18, where we expect the company to post earnings of PKR 1.43bn (EPS PKR 17.18) up by +18%YoY compared to PKR 1.20bn (EPS PKR 14.50),
- We expect Hascol Petroleum Limited (HASCOL) to post earnings of PKR 311mn (EPS PKR 2.15) down by 17%YoY compared to PKR 377mn (EPS PKR 2.60) in the same period last year.

OMC Sector: Earnings to drop by 26%YoY to PKR 4.24bn in 3QFY18

IGI OMC universe earnings are expected to decline by 26%YoY in 3QFY18 to PKR 4.24bn compared to PKR 5.72bn in the same period last year. Earnings contraction is expected on the back of a) exchange losses owing to 5% PKR depreciation in Mar-18, b) likely inventory losses during the quarter and, c) decline in FO sales amid lower power generation on FO.

PSO: earnings to plummet by 40%YoY in 3QFY18 to PKR 7.67/share

We expect Pakistan State Oil Company Limited (PSO) to post earnings of PKR 2.50bn (EPS PKR 7.67) down by 40%YoY compared to PKR 4.14bn (EPS PKR 12.70) in the same period last year. We attribute the decline in the earnings to a) exchange losses of PKR 652mn owing to 5% PKR depreciation in Mar-18, b) 69%/3%YoY drop in FO/HSD sales and, c) likely inventory losses of PKR 484mn despite inventory gain in Mar-18. Lower financing cost owing to dollar based borrowing is likely to offset decline in other income. However, due to release of payments by GoP to ease circular debt, company may likely book higher overdue penal interest income which may provide upside to our estimates. Effective tax rate is likely to remain on the higher side owing to turnover tax. This brings 9MFY18 earnings to PKR 11.02bn (EPS PKR 33.81) down by 22%YoY. We forecast PSO to pay cash dividend of PKR 7.75/share, along with the result.

Exhibit:

PSO Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	230,652	218,160	6%	749,005	629,508	19%
Gross Profit	7,526	9,232	-18%	26,256	27,123	-3%
Operating Costs	3,913	2,904	35%	2,700	1,109	143%
Other Op. Income	1,330	1,703	-22%	4,299	8,019	-46%
EBIT	4,943	8,031	-38%	19,592	25,472	-23%
Finance Cost	1,042	1,485	-30%	2,821	4,331	-35%
PBT	4,033	6,716	-40%	17,113	21,677	-21%
PAT	2,500	4,141	-40%	11,022	14,156	-22%
EPS (PKR)	7.67	12.70		33.81	43.42	
DPS (PKR)	7.75	10.00		7.75	10.00	

Source: IGI Research, Company Financials

No of Shares: 326.02mn

Exhibit: MS Volumes - Company wise (9MFY18)

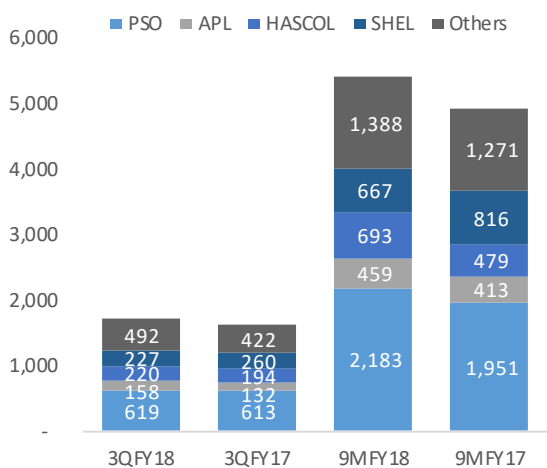


Exhibit: HSD Volumes - Company wise (9MFY18)

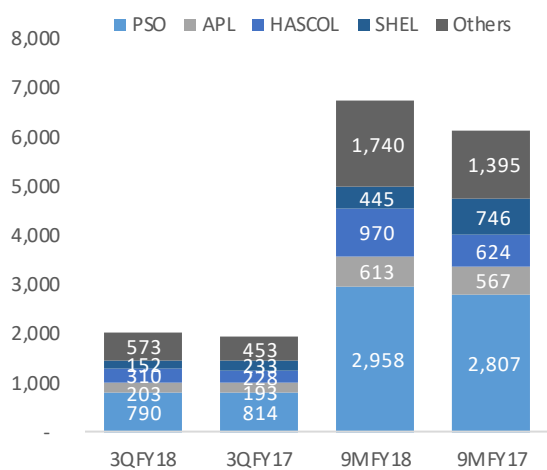
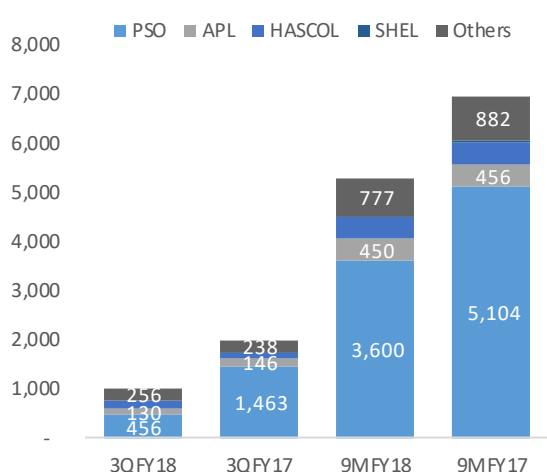


Exhibit: FO Volumes - Company wise (9MFY18)



Source: Company Financials, IGI Research

APL: earnings to increase by +18%YoY in 3QFY18 to PKR 17.18/share

Attock Petroleum Limited's (APL) board meeting is scheduled on 16th Apr-18 to announce financial result for 3QFY18, where we expect the company to post earnings of PKR 1.43bn (EPS PKR 17.18) up by +18%YoY compared to PKR 1.20bn (EPS PKR 14.50) in the same period last year. We attribute the growth in the earnings to a) +20%/+5%YoY rise in MS/HSD volumes and, b) minimum exchange loss due to lower exposure to USD. However, the company is likely to book inventory loss of PKR 12mn. This brings 9MFY18 earning to PKR 4.24bn (EPS PKR 15.06) down by meagre 3%YoY.

Exhibit:

Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	47,809	34,679	38%	124,154	96,174	29%
Gross Profit	2,120	1,808	17%	6,519	5,726	14%
S&D expense	539	506	6%	1,756	1,382	27%
Other Op. Income	234	231	1%	648	712	-9%
EBIT	1,815	1,532	18%	5,411	5,056	7%
Finance Cost	177	189	-7%	573	616	-7%
PBT	1,979	1,665	19%	5,871	6,146	-4%
PAT	1,425	1,202	18%	4,235	4,359	-3%
EPS (PKR)	17.18	14.50		51.06	52.56	
DPS (PKR)	-	-		15.00	15.00	

Source: IGI Research, Company Financials

No of Shares: 82.94mn

HASCOL: earnings to decline by 17%YoY in 1QCY18 to PKR 2.15/share

We expect Hascol Petroleum Limited (HASCOL) to post earnings of PKR 311mn (EPS PKR 2.15) down by 17%YoY compared to PKR 377mn (EPS PKR 2.60) in the same period last year. Decline in earnings is primarily attributable to a) exchange loss of PKR 462mn, b) inventory loss of PKR 173mn and, c) higher effective tax rate of 38% owing to turnover tax application. However, core business recorded +13%/+36%/+22%YoY growth in MS/HSD/FO sales.

Exhibit:

Financial Highlights

PKRmn	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales	60,455	34,894	73%	49,503	22%
Gross Profit	2,161	1,428	51%	2,947	-27%
S&D expense	812	540	50%	876	-7%
Admin expense	184	149	24%	145	28%
Other Op. Income	80	67	19%	175	-54%
Finance Cost	212	114	86%	194	9%
PBT	502	669	-25%	801	-37%
PAT	311	377	-17%	305	2%
EPS (PKR)	2.15	2.60		2.11	
DPS (PKR)	-	-		3.50	

Source: IGI Research, Company Financials

No of Shares:
144.82mn

Recommendation

We maintain 'BUY' call on PSO/HASCOL/APL with our Dec-18 target price of PKR 385/share, PKR 328share/ PKR 677/share offering +23%/+14%/+12% upside from last close. PSO and APL are trading at FY18 P/E of 7.1x and 9.9x, respectively.

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Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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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: 816	muhammad.saad@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
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
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
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
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

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

Sialkot Office

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