

Day Break

Tuesday, 03 April 2018

COMPANY UPDATE

Hascol Petroleum Limited
Oil & Gas Marketing Companies

Recommendation	BUY
Target Price:	304.6
Last Closing: 2-Apr-18	266.0
Upside:	14.5
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

Market Data

Bloomberg Tkr.	HASCOL PA		
Shares (mn)	144.8		
Free Float Shares (mn)	42.2		
Free Float Shares (%)	29.2%		
Market Cap (PKRbn USDmn)	38.5	332.9	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	10.0	(4.5)	(15.5)
Lo	244.7	211.6	211.6
Hi	283.6	296.5	389.4

Key Company Financials

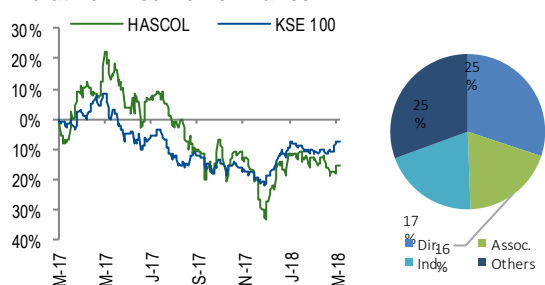
Period End: Dec

PKRbn	CY16A	CY17E	CY18F	CY19F
Total Revenue	99.5	175.2	157.0	178.2
Net Income	1.2	0.9	1.3	2.3
EPS (PKR)	8.4	6.4	9.2	15.9
DPS (PKR)	5.8	3.9	5.0	11.0
Total Assets	44.6	69.5	62.6	69.2
Total Equity	6.1	10.1	10.7	11.4

Key Financial Ratios

ROE (%)	19.9	9.1	12.4	20.1
P/E (x)	31.7	41.8	29.0	16.7
P/B (x)	6.3	3.8	3.6	3.4
DY (%)	2.2	1.5	1.9	4.1

Relative Price Performance



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: Exchange loss and provisioning in 4QCY17 to drag CY17 EPS to PKR 6.37

- Hascol Petroleum Limited (HASCOL) board meeting is scheduled on 04th Apr-18 to announce financial results for 4QCY17. We expect the company to report loss of PKR 173mn (LPS PKR 1.20) in 4QCY17 as compared to profitability of PKR 312mn in the same period last year;
- Earnings for CY17 are estimated to drop by 24%YoY to PKR 1.83bn (EPS PKR 6.37) as compared to PKR 2.15bn (EPS PKR 8.39) in the same period last year primarily owing to a) higher effective tax rate of 49.4% and, b) exchange losses and provisioning during 4QCY17E;
- We maintain our “BUY” call on HASCOL with our Dec-18 target prices of PKR 305/share offering +14.5% upside from its last closing. HASCOL is currently trading at CY18E P/E of 29.0x.

HASCOL to report LPS of PKR 1.20 during 4QCY17...

Hascol Petroleum Limited (HASCOL) board meeting is scheduled on 04th Apr-18 to announce financial results for 4QCY17. We expect the company to report loss of PKR 173mn (LPS PKR 1.20) in 4QCY17, as compared to profitability of PKR 312mn in the same period last year. We attribute this decline in earnings on the back of a) PKR 458mn (PKR 3.16/share) exchange loss owing to 5% devaluation of PKR against the greenback and b) likely provisioning of PKR 600mn (PKR 4.14/share) regarding out of court settlement of litigation dispute between the Company and Mena Energy. However, besides these one-off events, the core business remained upbeat with total volumes increasing by +38%YoY during 4QCY17 led by +63%/+55%YoY growth in MS/HSD volumes and inventory gains of PKR 192mn (PKR 1.33/share). We expect company to announce cash dividend of PKR 1.0/share along with the result.

...Taking CY17 EPS to PKR 6.37, down by 24%YoY

Earnings for CY17 are estimated to drop by 24%YoY to PKR 1.83bn (EPS PKR 6.37) as compared to PKR 2.15bn (EPS PKR 8.39) in the same period last year primarily owing to a) higher effective tax rate of 49.4% and, b) exchange losses and provisioning during 4QCY17E. However, total volumes increased by +43%YoY in CY17 led by +65%/+60%YoY growth in MS/HSD volumes.

Exhibit:

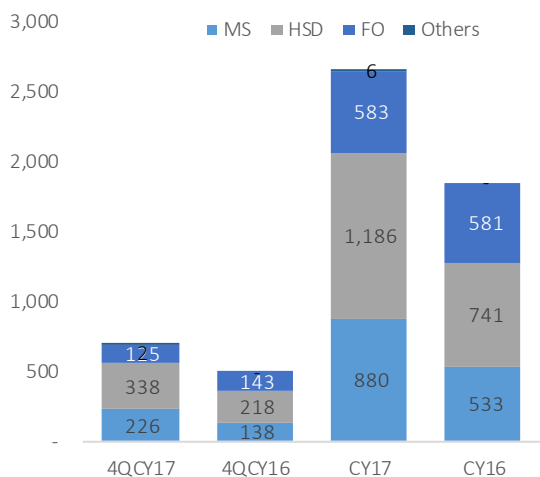
Financial Highlights

PKRmn	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Net Sales	50,950	29,247	74%	175,187	99,508	76%
Gross Profit	1,866	1,364	37%	6,308	4,708	34%
S&D expense	601	553	9%	2,391	1,763	36%
Admin expense	162	149	9%	629	529	19%
Other Charges	1,072	(1)	n/m	1,254	41	30.6x
EBIT	1,165	722	61%	3,593	2,627	37%
Finance Cost	126	114	11%	515	433	19%
Profit Before Taxation	(33)	605	n/m	1,825	2,154	-15%
Profit After Taxation	(173)	312	n/m	923	1,216	-24%
EPS (PKR)	(1.20)	2.15		6.37	8.39	
DPS (PKR)	1.00	2.92		3.92	5.83	

Source: IGI Research, Company Financials

Shares mn: 144.82 mn

Exhibit: HASCOL volumes (000' MTon)



Total Volumes up by +50%YoY in 3QCY17

Total sales for HASCOL leaped up by +38%YoY to 0.69mn Mton during 4QCY17 as compared to 0.50mn Mton in the same period last year. This substantial growth in volumes was led by +63%/+55%YoY rise in MS/HSD volumes (industry growth of +9%/+2%YoY). FO sales declined by 12%YoY to 0.13mn Mton during 4QCY17 (industry volumes down by 22%YoY). This brings total volumes for CY17 to 2.66mn Mton up by +43%YoY.

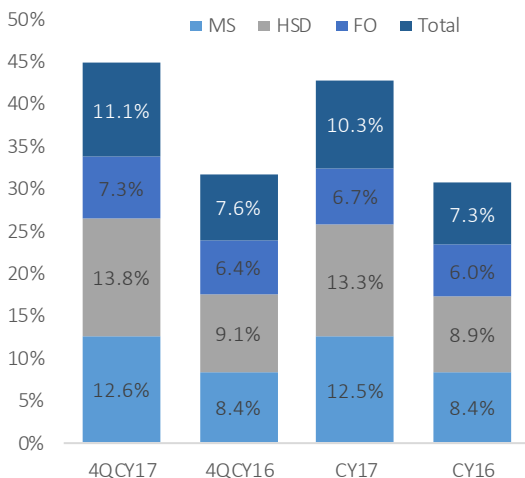
Outlook

We expect HASCOL's volumetric growth to slow down owing to fading low base effect. Further we expect CY18 and CY19 earnings to remain depressed owing to likely exchange losses in 1QCY18E and payment of USD 2.54mn bi-annually in respect of out of court settlement with Mena Energy. However, the only growth trigger remains commissioning of Lube blending plant in 2019.

Recommendation

We maintain our **"BUY"** call on HASCOL with our Dec-18 target prices of PKR 305/share offering +14.5% upside from its last closing. HASCOL is currently trading at CY18E P/E of 29.0x.

Exhibit: HASCOL - MS, HSD, FO market share



Source: Company Financials, IGI Research

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