

Day Break

Thursday, 29 September 2016

Company Update

Hascol Petroleum Limited

Oil & Gas Marketing Companies

Recommendation	BUY
Target Price	292.8
Last Closing	219.9
Upside	33%

Market Data

Bloomberg Tkr.	HASCOL PA
Shares (mn)	120.7
Market Cap (PKRbn USDmn)	26.5 253.3
Exchange	KSE ALL

Price Info.	90D	180D	365D
Abs. Return	14.1	59.2	89.1
Low	195.4	141.9	118.1
High	235.7	235.7	235.7

Key Company Financials

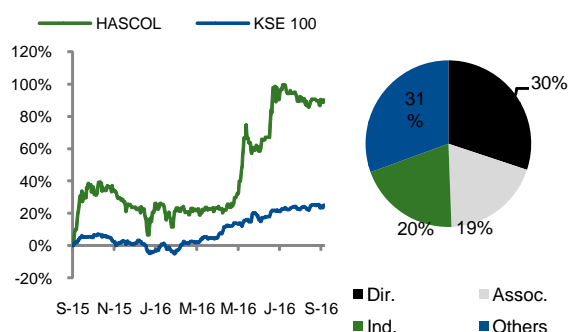
Period End: Dec

PKRbn	CY15A	CY16E	CY17F	CY18F
Total Revenue	76.8	104.3	133.0	157.9
Net Income	1.1	1.6	2.0	2.8
EPS (PKR)	9.4	13.2	17.0	23.0
DPS (PKR)	5.0	6.0	8.0	11.0
Total Assets	26.6	29.7	35.8	41.5
Total Equity	5.8	7.1	8.4	10.0

Key Financial Ratios

ROE (%)	20%	22%	24%	28%
P/E (x)	23.4	16.7	12.9	9.6
P/B (x)	4.6	3.7	3.2	2.6
DY (%)	2.3	2.7	3.6	5.0

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, KSE 100 & IGI Research

Analyst

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Hascol Petroleum Limited

Earnings Estimates Revised; Reiterate with 'BUY' Call, offering +33% upside

- We have revised upwards our earnings estimates for Hascol Petroleum Limited (HASCOL) to PKR 13.2/share/PKR 16.9/share/PKR 22.9/share for CY16E/17F/18F.
- We base our earnings revision on the back of a) increase in MS volumes by +5%/+18%/+29% in CY16E/17F/18F, b) rise in HSD sales by +22%/+26%/+31% in CY16E/17F/18F, and c) annual OMC margin accretion linked with CPI.
- We have rolled forward our target price for HASCOL to Jun-17 from earlier Dec-16. We reiterate our stance with a "BUY" call with target price of PKR 293/share, offering +33% upside from its last closing.

We have revised upwards our earnings estimates for Hascol Petroleum Limited (HASCOL) to PKR 13.2/share/PKR 16.9/share/PKR 22.9/share (up by +13%/+24%/+53%) for CY16E/17F/18F. We base our earnings revision on the back of a) increase in MS volumes by +5%/+18%/+29% in CY16E/17F/18F, b) rise in HSD sales by +22%/+26%/+31% in CY16E/17F/18F, and c) annual OMC margin accretion linked with CPI. As a result, we have increased our target price for HASCOL to PKR 293/share (up by +73%) from previous PKR 169/share.

MS: higher volumes led by lower prices and automobile sales

We have increased our MS sales volumes by +5%/+18%/+29% in CY16E/17F/18F to 0.56/0.73/0.87mnTon on the back of a) higher automobile sales amid lower auto financing rates, b) lower domestic prices expected to increase gradually over the next 3 years (still trading at a discount of 57% from its peak of PKR 113.2/ltr back in 2013), and expansion of retail outlets and addition of storage facilities. As a result, we expect incremental earnings of PKR 0.5/share / PKR 2.1/share / PKR 3.9/share in CY16E/17F/18F.

HSD: strong presence in north to bring higher volumes growth

We have increased our HSD sales volumes by +22%/+26%/+31% in CY16E/17F/18F to 0.73/0.84/0.86mnTon owing to depressed prices (still at a discount of 62% from its peak price of PKR 116.9/ltr back in 2013). We estimate earnings to augment by PKR 2.1/share/PKR 2.7/share/PKR 3.6/share in CY16E/17F/18F on the back of higher volumes.

Exhibit: HASCOL Volumes

000'tons	CY14	CY15	CY16E	CY17F	CY18F	CY19F
MS	176.6	302.8	560.0	726.0	871.2	958.3
HSD	341.4	465.5	725.0	765.0	858.3	875.5
FO	392.1	502.0	600.0	720.0	720.0	720.0
Total	910.1	1,270.4	1,885.0	2,211.0	2,449.5	2,553.8

Source: IGI Research and Company Financials

Annual OMC margins linked with CPI

In May-16, the Economic Coordination Committee (ECC) approved on recommendation of Ministry of Petroleum and Natural Resources (MPNR) annual increase of 0.06/ltr in OMCs margins for MS and HSD, along with annual revision thereon linked with CPI. To recall, OMC margins were last increased back in Nov-14 for MS and HSD to PKR 2.35/ltr each, respectively. We have assumed base case CPI inflation of 5% during FY18F-FY20F, augmenting HASCOL's weighted average margins by 4% in CY17 and 5% in CY18 and CY19 for MS and HSD, respectively. As a result, we expect earnings to augment by PKR 0.3/share/PKR 0.9/share/PKR 2.76/share in CY16E/17F/18F.

Exhibit: MS and HSD Margin increase linked with CPI

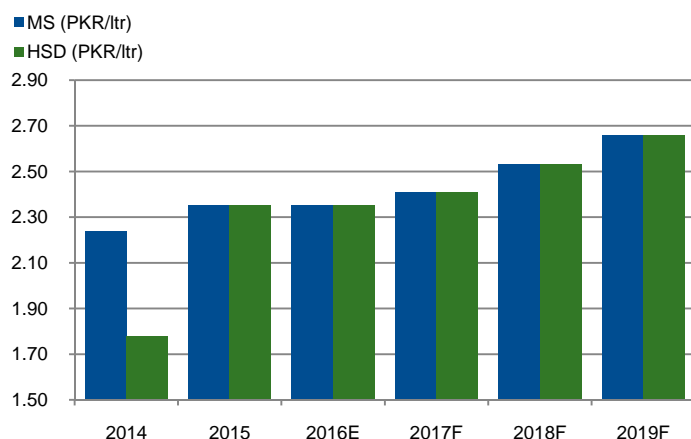
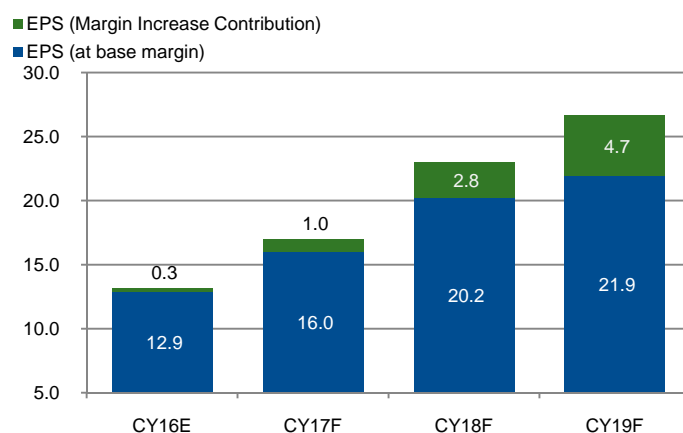


Exhibit: Earnings Contribution of Margin up lift from base margin of PKR 2.35/ltr in FY17 and PKR 2.41/ltr there onwards



Source: IGI Research, Company Financials

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 Mehmoodkot is expected to be completed by the end of 2016. Storage facility at Keamari with a storage 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.

1HCY16 Earnings Review; HASCOL posted earnings of PKR 612mn (EPS PKR 5.07), up by +19%YoY

The company recorded earnings of PKR 612mn (EPS PKR 5.07) in 1HCY16 up by +19%YoY as compared to PKR 516mn (EPS PKR 4.27) in the same period last year owing to a) substantial jump in MS/HSD volumes by 1.1xYoY/79%YoY to 0.25mnTon/0.35mnTon, and b) higher inventory gains as oil prices rebounded from 1QCY16. The company announced cash dividend of PKR 3.5/share in 1HCY16 as compared to PKR 1.5/share in the same period last year.

Exhibit: Earnings estimated to post 3Yr CAGR of +35% during CY16E-18F

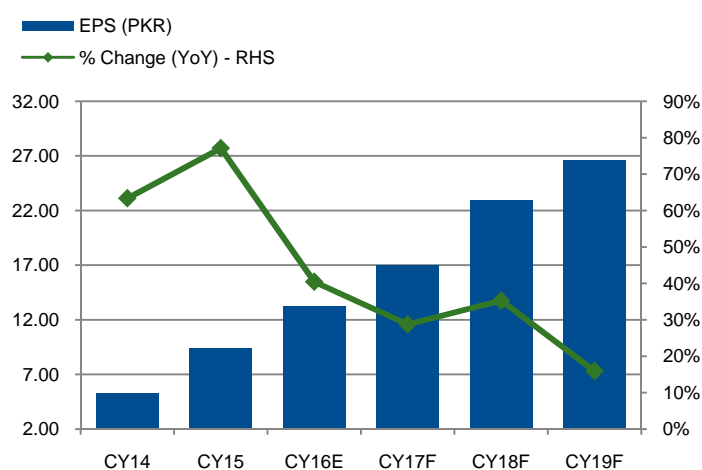
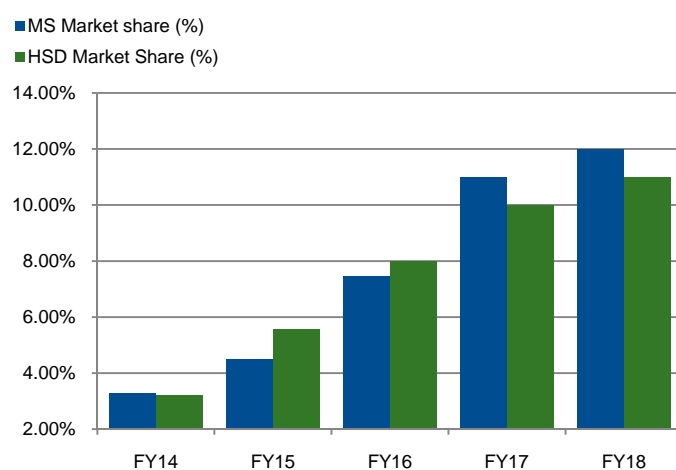


Exhibit: Market share for MS and HSD expected to increase to 12% and 11% for MS and HSD, respectively



Source: IGI Research, Company Financials

Recommendation

We have rolled forward our target price for HASCOL to Jun-17 from earlier Dec-16. We reiterate our stance with a **“BUY”** call with target price of PKR 293/share, offering +33% upside from its last closing. The company is currently trading at a CY16E/CY17F P/E of 16.7x/12.9x.

Exhibit: Financial Highlights

PKRmn	2QCY16	2QCY15	YoY	1HCY16	1HCY15	YoY
Net Sales	23,015	17,057	35%	43,367	36,427	19%
Gross Profit	1,407	776	81%	2,170	1,393	56%
EBIT	893	422	111%	1,229	882	39%
Finance Cost	108	66	64%	211	162	30%
PBT	750	369	103%	986	688	43%
PAT	410	242	69%	612	516	19%
EPS (PKR)	3.40	2.01		5.07	4.27	
DPS (PKR)	3.50	1.50		3.50	1.50	

Source: IGI Research and Company Financials

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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)
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 more than -10%, from its last closing price(s)

Time Horizon: Jun - 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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