

Day Break

Wednesday, 27 April 2016

Sector Update

TP				
OMC Sector	(Dec-16)	Upside	P/E	D. Yld %
PSO	454.29	25%	7.42	3.86
HASCOL	160.28	10%	12.73	4.12

EPS	3QFY16/ 1QCY16	YoY	9MFY16/ 4QCY15	YoY/ QoQ
	PSO	8.71	NM	33.50
HASCOL	2.63	16%	3.15	-17%

DPS	3QFY16/ 1QCY16	3QFY15/ 1QCY15	9MFY16/ 4QCY15	9MFY15/ 4QCY14
	PSO	-	6.00	5.00
HASCOL	-	-	3.50	-

Oil Marketing Companies

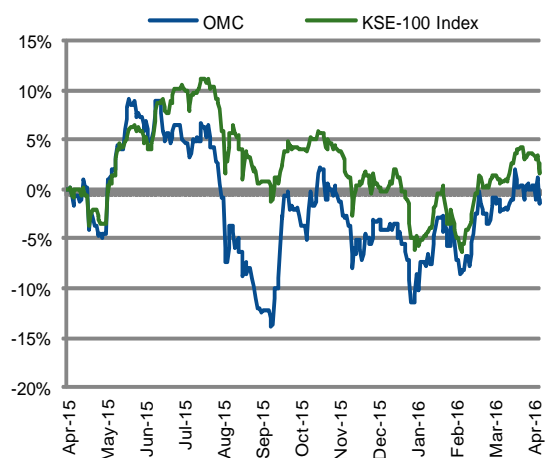
PSO & HASCOL: Lower Inventory Loss and Healthy Volumes to Drive Earnings

- Pakistan State Oil's (PSO) board meeting is scheduled on 29th Apr-16 where we expect the company to post earnings of PKR 2.4bn (EPS PKR 8.71) in 3QFY16 as compared to a loss of PKR 1.0bn (EPS PKR 3.83) in the same period last year.
- Hascol Petroleum Limited's (HASCOL) board meeting is scheduled on 28th Apr-16 to announce 3QFY16 financial result. We anticipate company's earnings to depict +1.4xYoY rise to PKR 317mn (EPS PKR 2.63) in 1QCY16 as compared to PKR 274mn (EPS PKR 2.27) in the same period last year.
- Our top pick in the sector remains PSO with Dec-16 TP of PKR 454/share, offering +25% upside from its last close. The company is currently trading at P/E of 7.42x, offering a dividend yield of 3.9%.

PSO – Earnings to Clock in at PKR 8.71/share for 3QFY16

Pakistan State Oil's (PSO) board meeting is scheduled on 29th Apr-16 where we expect the company to post earnings of PKR 2.4bn (EPS PKR 8.71) in 3QFY16 as compared to a loss of PKR 1.0bn (EPS PKR 3.83) in the same period last year. Despite 36%YoY reduction in profit contribution due to 42%YoY decline in FO prices, profit improved on the back of +2%YoY growth in overall volumes, led by +11%YoY increase in FO volumes. We expect the company to post an inventory loss of PKR 0.9bn during 3QFY16. Profitability for 9MFY16 is expected to rise by +1.8xYoY to PKR 9.0bn (EPS PKR 33.50).

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

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

Exhibit: Financial Highlights

PKRmn	3QFY16E	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	139,812	173,930	-20%	493,777	682,217	-28%
Gross Profit	4,997	1,644	204%	19,158	14,152	35%
Operating Exp	3,044	3,111	-2%	9,301	10,895	-15%
Other Income	2,936	2,590	13%	8,240	9,312	-12%
EBIT	4,889	1,123	335%	18,098	12,569	44%
Finance Cost	1,730	2,741	-37%	5,331	8,683	-39%
PAT	2,367	(1,041)	N/M	9,093	3,242	180%
EPS (PKR)	8.71	(3.83)		33.5	11.9	
DPS (PKR)	-	6.00		5.0	6.0	

Source: IGI Research and Company Financials

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Exhibit: PSO Volumes

000'tons	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
MS	556.4	598.7	-7%	1,767.7	1,561.7	13%
HSD	800.1	864.0	-7%	2,510.5	2,546.8	-1%
FO	1,532.7	1,385.7	11%	4,446.3	4,379.8	2%
Total	3,055.9	2,981.8	2%	9,204.4	8,893.5	3%

Source: IGI Research and Company Financials

HASCOL - EPS PKR 2.63 up by +16%YoY in 1QCY16

Hascol Petroleum Limited's (HASCOL) board meeting is scheduled on 28th Apr-16 to announce 3QFY16 financial result. We anticipate company's earnings to depict +1.4xYoY rise to PKR 317mn (EPS PKR 2.63) in 1QCY16 as compared to PKR 274mn (EPS PKR 2.27) in the same period last year, owing to +22%YoY rise in overall volumes led by +106%YoY and +87%YoY growth in MS and HSD sales, respectively while FO volumes plunged by 33%YoY.

Exhibit: Financial Highlights

PKRmn	1QCY16E	1QCY15	YoY	4QCY15	QoQ
Net Sales	23,237	19,370	20%	21,429	8%
Gross Profit	973	616	58%	848	15%
S&D Exp	335	169	98%	343	-2%
Admin	107	59	81%	110	-3%
Other Income	49	72	-31%	61	-19%
EBIT	580	459	26%	551	5%
Finance Cost	91	96	-5%	87	5%
PAT	317	274	16%	380	-17%
EPS	2.63	2.27		3.15	
DPS	-	-		5.00	

Source: IGI Research and Company Financials

Exhibit: HASCOL Volumes

000'tons	1QCY16	1QCY15	YoY	4QCY15
MS	118.7	57.7	106%	101.8
HSD	168.0	89.7	87%	165.9
FO	129.2	193.3	-33%	83.1
Total	415.8	340.7	22%	350.8

Source: IGI Research and Company Financials

Outlook

We maintain over-weight stance on OMCs on the back of a) healthy demand for MS owing to lower prices, b) government's 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, c) HSD volumes to remain upbeat as commercial transportation gains further momentum and, d) minimum inventory losses during 2HFY16. On the downside, any drop in FO prices would lead to lower FO contribution in the overall profitability, but we expect better volumes to mitigate this risk to a certain extent, due to cheaper cost of power production on FO as compared to gas.

Recommendation

Our top pick in the sector remains PSO with Dec-16 TP of PKR 454/share, offering +25% upside from its last close. The company is currently trading at P/E of 7.42x, offering a dividend yield of 3.9%.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Discounted Cash Flow (DCF)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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, KSE 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- Liaquat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

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