

### Hascol Petroleum Limited (HASCOL)

- **HASCOL posted 1HC18 profit after tax of Rs1.02bn (EPS: Rs7.10) as compared to profit after tax of Rs790mn (EPS: Rs5.46) in SPLY, up by 30% YoY. The increase in earning is mainly due to higher volumetric sales (up by 25% YoY)**
- **In last 4 years HASCOL’s market share has increased from 4.46% to 9.92% while its volume grew at 3years CGAR of ~40% due to aggressive expansion in retail outlets, storage capacities and offering discount on its product. We believe the company is now focusing on the improvement of its bottom line by lowering discount on its products. As witnessed in financials, HASCOL’s discount has declined from Rs0.42/liter in CY16 to Rs0.13/ liter in CY17**
- **HASCOL is in process to setup lubricant blending plant and LPG filling plant where both plants are expected to come online at the end of CY18. Both products are high margin products and have potential of healthy growth going forward. However we have not incorporated this in our valuation due to lack of clarity**
- **HASCOL is currently trading at CY18E and CY19E P/E of 21.13x and 12.59x respectively. We have Hold call on scrip with a DCF based Dec 18 target Price of Rs301/-providing upside of 8.3% from LDCP**

**1HCY18 profitability increased by 30% YoY** HASCOL posted 1HCY18 profit after tax of Rs1.02bn translating into EPS of Rs7.10 as compared to EPS of Rs5.46 in SPLY. Increase in earning is due to higher volumetric sales which are up by 25% YoY. HASCOL posted an exchange loss of Rs1.8bn in 1HCY18 due to devaluation of PKR whereas finance cost increased by 66% YoY due to higher borrowing for the expansion purpose and working capital requirement.

**Time to Gain from Market Share** HASCOL has achieved a growth of 40% (4 year CGAR) in its sales volumes during last 4 year. The growth is achieved due to aggressive expansion in retail and storage facility and discount offering on their products. We expect HASCOL volumes growth to slow down going forward due to higher petroleum prices, expansion by other OMCs (both in storage capacity and retail outlets), economic slow down and lower product diversification.

As witnessed in the financials, HASCOL provides discount on its products to capture market share we believe the company is now focusing on the improvement of its bottom line by lowering discount on its products. HASCOL’s discount has declined from Rs0.42/liter in CY16 to Rs0.13/liter in CY17

**Potential Growth opportunity on account of product diversification** HASCOL is setting up a lubricant blending plant with a cost of Rs1.8bn which is expected to become operational at the end of CY18. Furthermore HASCOL has acquired Marshall Gas LPG plant for Rs175mn and has setup LPG retail stations. Both of these plants are expected to become operational at the end of CY18 and is expected to improve earning capacity going forward. However we have not incorporated this in our valuation due to lack of clarity but our calculation suggests that both of these projects would add around Rs0.40 to Rs0.50 per share on every 1% rise in market share. In order to enter into LNG business, HASCOL with its trading partner Vitol has setup JV “VAS LNG (Pvt) Ltd” in which it holds 30% shareholding. However, the company has not disclosed any business plan but we expect this will further improve bottom line going forward

**Valuation Price**

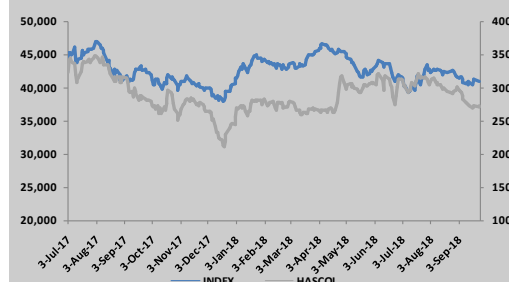
HASCOL is currently trading at CY18E and CY19E P/E of 21.13x and 12.59x respectively. We have a Hold stance on the scrip with DCF based Dec’18 target price of Rs301/-, providing 8.3% upside from LDCP

**Key Risks:**

- Decline in petroleum demand due to higher prices
- Higher inventory losses
- Offering Discount on HSD and MS
- Delay in increase in petroleum margins
- Adverse PKR movement

KATS Symbol	HASCOL
Reuters Symbol	HASC.KA
Target Price	Rs301
LDCP	Rs278
Outstanding Shares (mn)	144.82
Free Float (mn)	50.69
Market Cap (mn Rs)	40,260

Price Performance Against KSE100 Index

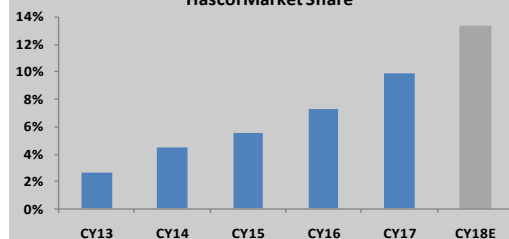


Source: PSX

	CY17A	CY18E	CY19E
EPS (Rs)	9.68	13.16	22.08
P/E (x)	28.73	21.13	12.59
DPS (Rs)	7.00	7.00	10.00
D/Y (%)	2.52%	2.52%	3.60%

Source: Co Financials, ASL Research

Hascol Market Share



Source: OCAC, Co Financials, ASL Research

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**Disclaimer**

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**Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

**Rating**

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price