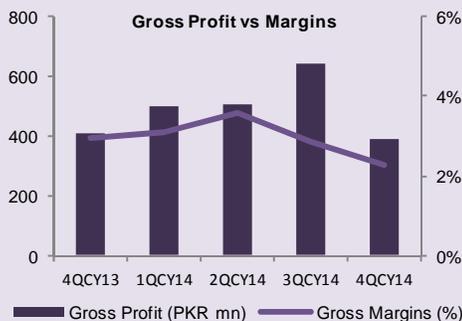


OMC IN FOCUS

HASCOL PETROLEUM LIMITED

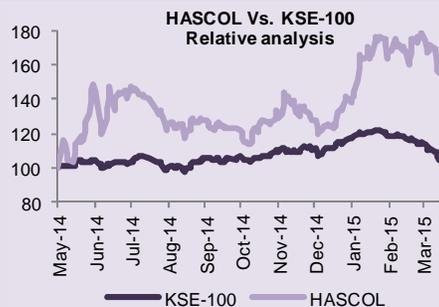
~Solid performance in CY14, some stress moving forward

| Key Data | 27-Mar-15 |
|----------------------------|--------------|
| KATS Code | HASCOL |
| Market Price (PKR) | 92.08 |
| Market Cap (PKR mn) | 8,342 |
| 52 weeks daily volumes (m) | 2.20 |
| 52 weeks High/Low (PKR) | 106.06/59.32 |
| 3 Months High/Low (PKR) | 106.06/73.13 |
| 3 Months daily volumes (m) | 2.55 |
| Free Float (%) | 30.0% |
| Outstanding Shares (m) | 91 |
| Weight in Index (%) | 0.12 |



Holding capacity (MT)

| | HSD | HSFO | MS | SKO |
|------------------|-------|-------|-----|-------|
| Kaemari | 2,500 | 8,000 | 450 | 1,200 |
| Machike | 6,000 | - | 250 | 250 |
| Shikarpur | 6,000 | - | 500 | - |
| Amangarh | 1,200 | - | - | - |



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Synopsis

Hascol Petroleum Limited (HASCOL) has posted outstanding financial results for yearend CY14. In financials announced on the 25th of Mar'15, the firm has posted strong NPAT growth of 63% YoY, recorded at PKR 640mn (EPS: PKR 7.84) in CY14 against PKR 392mn (EPS: PKR 5.97) in the previous year. Management has decided to reward investors with final reward of 11% bonus along with results. This is in addition to cash dividend of PKR 3.2/share already paid out.

On the other hand, quarterly analysis paints a drab picture where despite growth in volumetric sales, the impact of drastic product price is apparent. We see Top-Line decline by 19% QoQ in 4Q CY14, gross margins down by 56bps QoQ with the end result of NPAT decline of 34% QoQ to reach PKR 129mn against income of PKR 196mn in the previous quarter.

Increasing holding capacity + demand, elevated Top-Line

Increased storage ability, better demand on low prices and growing retail network to dispatch product, HASCOL's volumetric sales have flourished during the year with net sales up by as much as 70% YoY to reach PKR 84.9bn against PKR 49.9bn (YoY). With the addition to two storage facilities at Kaemari, Karachi and Machike, Punjab along with operational import terminal, the firm was able to increase volumetric sales by as much as 86% for MS and by 69% for HSD.

As mentioned in an earlier report, the recently constructed Kaemari import terminal and Machike storage facility has increased HSD holding capacity by 118%, MS by 140% and added SKO capacity of 1,450MT and HSFO of 8,000MT as well.

Gross margins down on price fluctuation, operating margins up

Downside to price drop, despite benefit of better demand, is fluctuations and price differentials, forced degradation of gross margins. Gross margin for the year are recorded at 2.4%, down by 33bps YoY against margin of 2.7% in the previous year. Despite slight degradation, gross profits increased notably by 50% YoY to reach PKR 2.04bn against PKR 1.36bn in the previous year. OPEX has increased by 34% YoY due to 30% increase in distribution & selling expenses and 44% YoY growth in administration expense. However, strong gross profit growth and substantial 7.5x YoY better other income, operating margin are seen at 1.5%, greater by 30bps YoY.

Better other income is primarily through 4.17 x YoY greater markup incomes on bank deposits and 8.62 x YoY greater incomes from storage and handling facility offered to other companies.

4Q CY14 performance downgraded on low prices, may persist

Due to sudden drop in product prices with price for MS and HSD declining by 33% and 26% during 2H CY15, we see pressured operations in 4Q CY14, where Top-Line has declined to PKR 22bn, down by 19% YoY. Gross margins have declined significantly to 1.8% in 4Q CY14, down by 56bps QoQ. Resultantly, we see NPAT depicting negative growth of 34% QoQ. We expect this pressure may sustain in the ongoing quarter despite increase in volumetric sales.

HASCOL PETROLEUM LIMITED

~Solid performance in CY14, some stress moving forward

Net Sales vs. COGS



Shareholder Category (Pre-IPO)



Valuations

| | CY14A | CY15E | CY16F |
|-----------|-------|-------|-------|
| EPS (PKR) | 7.84 | 12.56 | 14.60 |
| DPS (PKR) | 3.20 | 6.00 | 7.00 |
| D/Y (%) | 3% | 7% | 8% |
| P/E (x) | 11.7 | 7.3 | 6.3 |

Sources: PSL Research, HASCOL Financials

Pressure to operations from exchange losses and finance costs

Strong increase in other expenses, up by 149% YoY and greater finance costs, up by 139% YoY provided some pressure to final earnings. Significant exchange losses of PKR 91mn experienced during the year due to fluctuations in PKR/USD parity inflated other expenses while 11% short-term financing and 134% greater current portion of long-term financing raised financial expenses. Moving forward, finance costs are expected to grow further as we see growing financial commitments by the firm.

CY14 Summary – Strong volumes elevate earnings

Substantial growth in volumetric sales is the main factor behind growth while pressure to operations is seen in growing financial expenses and exchange losses. Fluctuation in product prices in relation to international rates also caused some burden on gross margins.

- Net Sales are recorded at PKR 84.9bn, up by 70% YoY.
- Gross margins have declined moderately by 33bps YoY.
- Gross profit has increased by 50% YoY, at PKR 2.04bn.
- OPEX has increased by 34% YoY, reaching PKR 1.1bn.
- Other income is better by 4.17x YoY, at PKR 299mn.
- Finance costs and other expenses have increased by 139% YoY and 149% YoY respectively.

About the Company

HASCOL is a notable Oil marketing Company in Pakistan and the fourth OMC to be listed at the KSE. The firm is engaged in the purchasing, storing and marketing of petroleum and related products. The firm is the only company that provides Fuchs (Germany) Lubricant products in Pakistan. Recent capacity addition with construction of Machike storage facility in Punjab, has added 6000MT of holding capacity for HSD, 250MT of MS while the recently constructed import facility at Kaemari also has holding capacity of 2500MT of HSD, 8000MT of HSFO and 450MT of MS. Registered office is located in Karachi.

Company Outlook

Observing impact of drastic price reduction in the final quarter, we expect the firm to experience some negative growth; however, as oil prices are again moving upwards, repricing of POL products and growing volumes may help in recovery. Growing financial obligations are an added burden. Despite heavy burden created by circular debt across the board, the scrip still offers an upside potential of 47% to hit its target value of PKR135 owing to stable P/E(x) of 7.3x and reasonable D/Y% at 7%. **Buy.**