



Today's Daily

■ HASCOL: Settlement charge a 'thorn in the foot'

In the final turn of the Mena Energy vs. HASCOL dispute, the OMC has finalized an out-of-court settlement with its UAE-based supplier. This follows from longstanding claims and counterclaims over LC payments, and delayed shipments, where the London High Court in March'17 ruled against HASCOL. Through a notice to the exchange, the OMC stated that the final out of court settlement amounted to US\$9.5mn to be paid in four installments over 18 months. As no provisioning has been recorded over 9MCY17, we believe the planned outflow from P&L will be booked in 4QCY17E cratering profits for the quarter. In this context, HASCOL is expected to announce CY17E NPAT of PkR1.18bn (EPS:PkR8.12) tapering marginally (-2%), where the tax deductible out of court, international settlement depletes NPAT by ~418mn (PkR2.8/sh). Our DCF based TP has a negligible dip of ~0.6% to PkR315.7/sh, due to outflow, where we advise building positions on dips.

KSE100 - Index

Current	44,096.49
Previous	43,885.51
Chg.	0.48%

Mkt Cap. (PkRbn/US\$bn)

Current	9,151 / 82.78
Previous	9,108 / 82.39
Chg.	0.47%

Daily Turnover (mn)

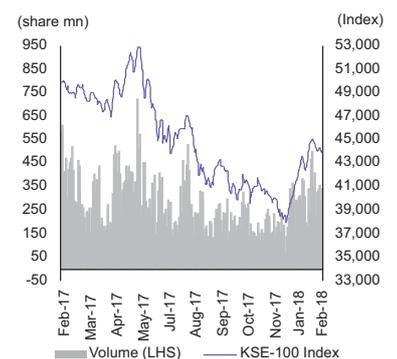
Current	269.99
Previous	237.96
Chg.	13.5%

Value Traded (PkRmn/US\$m)

Current	11,350 / 102.67
Previous	8,472 / 76.63
Chg.	34.0%

News and Views

- King Abdullah II of Jordan accompanied by a high-level delegation including senior officials will visit Pakistan on invitation of President Mamnoon Hussain, the Foreign Office said on Wednesday. During his stay here, the King of Jordan will hold talks with President Mamnoon Hussain and Prime Minister Shahid Khaqan Abbasi.
- Oil prices fell to a one-month low on Wednesday after U.S. data showed a build in inventories and record high crude production, raising worries of more selling that could expose speculators with big bets on upward momentum in crude prices. Brent crude futures LCOc1 fell \$1.35, or 2 percent, to \$65.51 a barrel.
- Pakistan Steel Melters Association (PSMA) has opposed the grant of duty and tax exemptions to Chinese company for Sukkur-Multan motorway project, saying the concession will cost around PkR11bn to the national exchequer.



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What, how, when: Having reached an out of court settlement with Mena Energy, HASCOL released in a notice to the exchange the disbursement schedule (spreading payments in four installments over 18 months), stating that the US\$9.5mn settlement would commence from May'18 (2QCY18E). Furthermore, prudence was cited in booking of PkR600mn as general provisioning (~56% of total charge at prevailing US\$/PkR) during CY17. As no provisioning has been recorded over 9MCY17, we believe the planned outflow from P&L will be booked in 4QCY17E cratering profits for the quarter. Additionally, we believe the remaining amount for the settlement, about PkR470mn will be expensed in 1QCY18E, after which cash outflows would follow the disbursement schedule.

HASCOL: Income Statement

(PkRmn)	4QCY17E	4QCY16	YoY	CY17E	CY16	YoY
Sales - Net of Sales Tax	50,967	29,446	73%	175,328	99,707	76%
Cost of Sales	(49,246)	(28,083)	75%	(169,165)	(95,000)	78%
Gross Profit	1,721	1,364	26%	6,163	4,708	31%
Selling & Dist Exp	(670)	(553)	21%	(2,460)	(1,763)	39%
Administrative Expenses	(212)	(161)	31%	(678)	(541)	25%
Operating Profit	840	650	29%	3,025	2,403	26%
Finance Cost	(155)	(114)	36%	(544)	(433)	26%
Other Inc. less other charges (538)	57	-1049%	(476)	171	-379%	
Profit Before Taxation	146	593	-75%	2,004	2,142	-6%
Taxation	(66)	(293)	-77%	(828)	938	-188%
Profit After Taxation	80	299	-73%	1,176	1,203	-2%
EPS@outstanding shares	0.55	2.07	-	8.12	8.31	-

Source: Co. Report & AKD Research

CY17 result preview: Considering the potential for substantial depletion of the bottom-line from settlement charges, HASCOL is expected to announce CY17E NPAT of PkR1.18bn (EPS:8.12) tapering marginally -

Volumes Snapshot (000 Tons)

HASCOL	4QCY17	2QCY17	4QCY16
FO	125	164	143
HSD	338	324	218
MOGAS	226	248	138
HOBC(95/97RON)	2	2	-
JP	-	-	-
KERO	-	-	-
LDO	-	-	-
Others	-	-	-
Total	691	738	500

Source: OCAC & AKD Research



2%YoY, where the tax deductible out of court, international settlement depletes NPAT by ~418mn (Pkr2.8/sh). Even so, underlying operations remain robust, with volumes for 4QCY17 having grown 38.2%YoY. Additionally, during a choppy period for FO sales, the segment's volumes fell only 23.6%QoQ, highlighting the price competitive nature driving volumes at the OMC. A function of this remains meagre margin accretion, as discounts eat into provisioned OMC margins, where we believe CY17 GM/OM should amount to 3.5/1.7% vs. 4.7/2.4% for CY16.

Investment perspective: It is our understanding that the matter remained material, with substantial commitment being proven (as the London court of arbitration had ruled against HASCOL), enough possibly, to translate from a contingency to a charge (as settlement was clearly in final stages on completion of reporting period. Dampening the impact of the settlement is the spaced out disbursement schedule, where ~Pkr268mn (~Pkr1.86/sh) for 2Q & 3Q CY18E, 1Q & 3Q CY19F, should keep the pressure of planned CAPEX outlays.



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