



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ HASCOL: Storage sharing adds to the bag of tricks

Still in relatively nascent stages of finalization with government approvals and final clear-offs pending, the HPL, TPPL agreement to share two storage depots are pending vital clear-offs. Two depots are the underlying assets at play here, Daulatpur (with capacity to hold 4,000/2,200MT HSD/MOGAS, first phase operational in Sept'15) and Sahiwal (6,000/3,500MT HSD/MOGAS storage, commissioned in Oct'17). Both are built on land purchased by HPL (3.75/6 acres for Daulatpur/Sahiwal) where the current storage exceeds foreseeable utilization of the facilities over the next three-five years. While transferring only one-thirds of plant and machinery at these depots, management has indicated that storage and handling income will be booked. Our rudimentary calculations suggest that on a monthly throughput of 3.5x we arrive at potential income of PkR~83mn. Implication on the sector are wide-ranging, whereas HASCOL benefits from higher asset utilization, improved efficiency and leaves the door open to further collaboration with local OMCs, leveraging its aggressive storage CAPEX. Our DCF based TP of PkR316/sh offers 14.4% upside, implying an Accumulate stance.

KSE100 - Index

Current 43,572.67
Previous 43,627.10
Chg. -0.12%

Mkt Cap. (PkRbn/US\$bn)

Current 9,006 / 81.45
Previous 9,051 / 81.86
Chg. -0.50%

Daily Turnover (mn)

Current 126.71
Previous 148.36
Chg. -14.6%

Value Traded (PkRmn/US\$m)

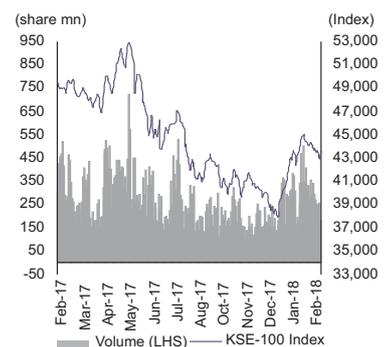
Current 5,125 / 46.35
Previous 5,839 / 52.81
Chg. -12.2%

AKD Daily

Tuesday, Feb 20, 2018

News and Views

- PM Abbasi on Monday urged National Assembly to debate on role and constitutional limits of the institutions and supremacy of the parliament to avoid any sort of confrontation that may cause harm to the country.
- The ADB has shown interest in mutual cooperation with Pakistan Railways (PR) to modernise its infrastructure, rolling stock and human resource management.
- Russian Ambassador to Pakistan Alexey Y Dedov said that Russia was ready to revamp the Pakistan Still Mill (PSM), but the GoP was yet unclear about its actual plan whether to privatize it or give it on lease
- As per latest data, the country managed to produce 11.485mn bales (up 7.49%YoY) during the current season as against 10.685mn bales in last season.



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Leveraging storage locations: Both locations are lucratively positioned near main highways, the PARCO Refinery (situated in Kot Adu, second largest in terms of capacity) with access to major cities and on the periphery of major towns (Nawabshah, Dadu, Khairpur are near Daulatpur is Sindh, while Sahiwal is near PARCO refinery, south of Faisalabad covering the Southern Punjab industrial belt). Total faces hurdles in expanding its storage in the region, where it has a significant foothold in-terms of pumps that need to be supplied regularly, while OGRA approvals have created supply bottle-necks for them. In this regard, HPL also uses Total's depot in Sahala for supplying its pumps in the north.

Potential handling income calculations: Management has indicated as a part of the deal, HPL will be earnings PkR0.1/ltr in handling fees, while one-third ownership (33%) in only the plant & machinery of both storages will be transferred to Total. Based on the same, and incorporating a regular throughput of 3.5x per month, we arrive at an annual incremental earnings impact of PkR82.7mn (PkR0.57/sh) constituting ~3% of average earnings over CY18-20F.

Outlook: The deal aims to achieve higher utilization levels and generate additional income from storage facilities not being used by HASCOL, in the medium term. Keeping in mind HASCOL's current retail expansion plans, storage facilities of Thalian, Mehmoodkot extension and Kotla Jam (cumulative storage capacity of 93.5K tons) are expected to be completed by 1HCY18. Additional benefits include inventory swaps, where product procured at lower costs (increased flow of Total's supply from PARCO

Back-of-the-envelope incremental handling income earnings impact

	HSD	MOGAS
Sahiwal	6,000	3500
Daulatpur	4,000	2200
Total	10000	5700
Monthly Throughput (X)	3.5	35,000
Quantity (Ltrs)	41,825,000	27,112,050
Monthly Income (PkR)	4,182,500.0	2,711,205.0
Annual Income (PkR)	50,190,000.0	32,534,460.0
Income/Sh	0.35	0.22

Source: Co. Report & AKD Research



refinery) could lead to upsides from inventory translation gains. Additionally, this could signal the beginning of an industry-level realization of relative saturation and possible carving up of regional segments throughout the country. Retail expansions have to be backed by adequate storage and transport infrastructure, a feat that may be impeded by regulatory approvals, signifying a first mover advantage for OMCs with diverse storage footprints and a pipeline of hefty storage CAPEX.



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