



Today's Daily

■ APL: Positives made prominent by emerging headwinds

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KSE100 - Index

| | |
|----------|-----------|
| Current | 42,939.68 |
| Previous | 42,347.49 |
| Chg. | 1.40% |

Mkt Cap. (PkRbn/US\$bn)

| | |
|----------|---------------|
| Current | 8,880 / 80.34 |
| Previous | 8,801 / 79.62 |
| Chg. | 0.90% |

Daily Turnover (mn)

| | |
|----------|--------|
| Current | 160.88 |
| Previous | 130.48 |
| Chg. | 23.3% |

Value Traded (PkRmn/US\$m)

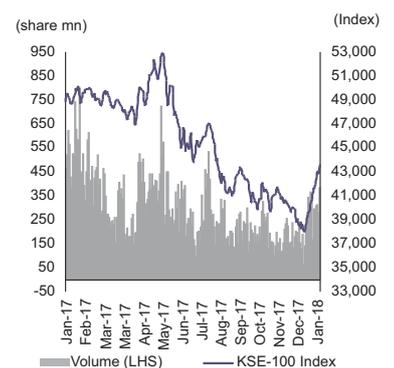
| | |
|----------|---------------|
| Current | 7,222 / 65.34 |
| Previous | 5,819 / 52.64 |
| Chg. | 24.1% |

AKD Daily

Wednesday, Jan 17, 2018

News and Views

- PAT chairman Tahir-ul-Qadri-led 'Qisas' movement begins today in the provincial capital. To avoid misunderstanding, it has been decided that the PTI and PPP chiefs Imran Khan and Asif Zardari will appear on the stage in different sessions.
- Foreign direct investment (FDI) fell 2.8 per cent to \$1.38 billion in the first half of 2017-18, although inflows from China rose 2.4 times, SBP reported on Tuesday. China now dominates FDI with a share of more than two-thirds in total investments. FDI from China was US\$969mn during the six months, which constituted 70% of total inflows. This should be a matter of concern for economic managers as most countries seem to shy away from investing in Pakistan.
- Prime Minister Shahid Khaqan Abbasi is likely to unveil new exports package comprising reduction in industrial electricity and gas tariffs and other incentives during his possible visit to the city this week. Industry officials said tariffs of electricity and gas would be revised downward only for exports sector.



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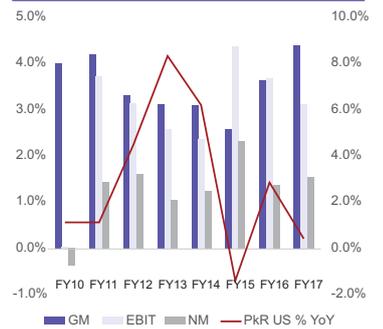


APL: Positives made prominent by emerging headwinds

Bearing headwinds from tumbling FO consumption (industry volumes down 21%QoQ) and PkR depreciation (weakening 5.1% during 2QFY18), the OMC space may be heading for a rough, late business upcycle. Stark reversal in refined POL benchmarks witnessed in the better part of 1QFY18 following two years of tumbling oil prices (49.7% decline on average) are exerting input cost pressures (average ex-refinery prices for 2QFY18 of HSD/FO +29/+24%YoY). For these reasons, we look at industry profitability (PSO + APL) over the last 8yrs, highlighting depressed margins and earnings as a major symptom of unexpected devaluation (FY13-14). APL stands on its high asset quality, unlevered balance sheet, creating a case for slower below the line margin attrition. Exemplifying these credentials through solid earnings, APL is expected to report NPAT of PkR1.32bn (EPS: PkR15.9) -1%QoQ/+11%YoY, taking 1HFY18E to PkR2.65bn marginally lower (-3.6%YoY, EPS of PkR31.9/sh).

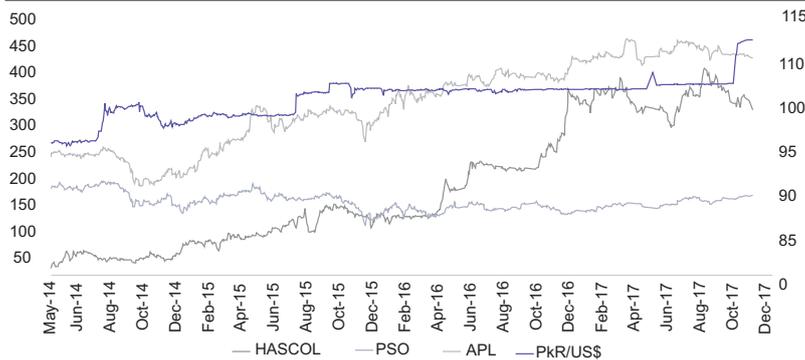
Headwinds come in all shapes: FX headwinds have previously derailed profitability in the OMC space, where a review of large PkR movements overlaid with OMC s earnings shows a decline of 100bps from Gross/Net margins flowing from weaker top line growth. Import reliant POL mix, coupled with inflation prone macroeconomic scenario has previously harmed the industry, where OMCs with local sourcing, adequate balance sheet strength and

FY10-17 PkRUSS movements & OMC industry margins



Source: Bloomberg, Co. Reports & AKD Research

HASCOL/APL/PSO Price with PkR/US\$



Source: PSX, Bloomberg & AKD Research

Why APL is standing tall: APL stands on its high asset quality, unlevered balance sheet, creating a case for slower below-the-line margin attrition following any major PkR weakness, despite sector-led weakness on the gross level (considering margins and prices of major product segments are fixed, limiting room to manoeuvre). These factors hold weight over market expectations as well, exhibited in stock price movements in period of major devaluation, where the OMC remained largely tethered to its price band. Higher D/Y's with corresponding health in pay-out ratios (5YR



historic POR of 86%) have kept volatility to a minimum, both in the business cycle and stock performance.

Preview & Investment perspective: For APL we expect NPAT for 1HFY18E to amount to PkR2.65bn marginally lower (-3.6%YoY, EPS of PkR31.9/sh)), resting on higher below the line expenses, significant hike in input costs and absence of HSD margins increment for the quarter. Following on, a QoQ tapering in volumes (FO/HSD/MS volumes -2/-4/-10%QoQ) and higher inventory costs have eroded sequential profit growth for 2QFY18E, where NPAT is expected to rest at PkR1.32bn (EPS: PkR15.9) -1%QoQ/+11%YoY. Looking ahead, growth from retail outlet expansion (adding 33 pumps in CY17 taking total to 613 pumps) and storage facilities are expected to supplement earnings in the medium term. Encouragingly, the company has held onto market share in an otherwise tepid FO demand environment, losing only 2% of volumes QoQ, where we see the trend continuing. At a revised DCF based TP of PkR725/sh implying 25% upside.

APL: Income Statement

| (PkRmn) | 2QFY18E | 2QFY17 | YoY | QoQ |
|-------------------------|---------|--------|------|------|
| Net sales | 39,872 | 37,156 | 7% | 3% |
| CGS | 37,913 | 35,584 | 7% | 4% |
| Gross profit | 1,959 | 1,573 | 25% | -1% |
| Other income | 213 | 351 | -39% | 3% |
| Operating expenses | 578 | 341 | 69% | 7% |
| Operating profit | 1,594 | 1,583 | 1% | -2% |
| Income on bank deposits | 380 | 368 | 3% | 10% |
| Profit from associates | 56 | 38 | 46% | -17% |
| WPPF | 80 | 226 | -65% | -15% |
| EBIT | 1,950 | 1,764 | 11% | 0% |
| Finance Cost | 135 | 76 | 77% | 10% |
| PBT | 1,815 | 1,688 | 8% | -1% |
| Income tax | 496 | 503 | -1% | -1% |
| PAT | 1,319 | 1,185 | 11% | -1% |
| EPS (PkR) | 15.9 | 14.3 | - | - |

Source: Company Report & AKD Research



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| | |
|------------|------------------------------------|
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| Accumulate | > 5% to < 20% upside potential |
| Neutral | ≤ 5% to ≥ -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |



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