AKD Daily

Tuesday, Jan 30, 2018

Today's Daily

PSO: Devaluation and FO debacle to weight on profits

Following a rather turbulent quarter, filled with headwinds in the form of an abrupt closure of FO fired power plants impeding supply chains while a mid-month devaluation exercise imposing hefty translation losses. In this circumstance we expect the state OMC to post NPAT of PkR ~3.0bn (EPS: PkR9.19/sh on post-bonus number of shares) for 2QFY18 taking 1HFY18 NPAT to PkR8.03bn (EPS: PkR24.62/sh) down 17.3%YoY. Despite margin increments for MOGAS (OMC margin raised to PKR2.55/ltr from Nov'17 raised ~6%), and HSD sales showcasing strength (+15%QoQ), the overwhelming impact of demurrages, associated contingent expenses on deferred/delayed shipments (reportedly at ~US$15,000/day or US$105,000/week for at least six cargoes) is likely to soften margins significantly. The impact of bonus shares and signalled rise in CAPEX are expected to tone down pay-outs as well, where we expect an interim dividend of PkR5.0/sh accompanying the result.

KSE100 - Index

Current	44,457.30
Previous	44,551.13
Chg.	-0.21%

Mkt Cap. (PkRbn/US$bn)

Current	9,182 / 83.07
Previous	9,218 / 83.39
Chg.	-0.39%

Daily Turnover (mn)

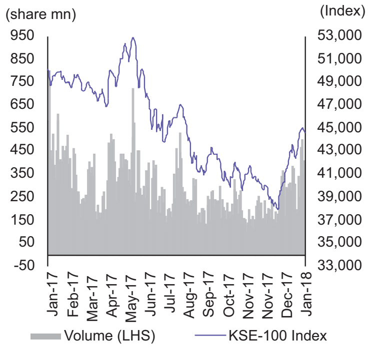
Current	192.33
Previous	270.76
Chg.	-29.0%

Value Traded (PkRmn/US$mn)

Current	8,050 / 72.83
Previous	9,176 / 83.01
Chg.	-12.3%

News and Views

- As per recent data released by SBP, profit repatriated by foreign companies increased 29.5%YoY to US$1.202bn in the 1HFY18. Sector wise, Telecom repatriated the most, sending home US$166.6mn, followed by Oil & Gas, which remitted US$130.1mn.
- The Drug Regulatory Authority of Pakistan (DRAP) has notified new drug prices with upward revision in prices in accordance with Drug Pricing Policy 2015. The price increase for scheduled/non-scheduled/low priced drugs is 2.08%, 2.91% and 4.16%, respectively.
- Bahrain-based Ithmaar Bank has revealed its plan to add more than 100 branches in Pakistan this year through its subsidiary Faysal Bank, to capitalize on the country´s low penetration rate of banking services.



Ali Asghar Poonawala
ali.poonawala@*akdsecurities.net*
111-253-111 Ext:646

PSO: Devaluation and FO debacle to weight on profits

Following a rather turbulent quarter, filled with headwinds in the form of an abrupt closure of FO fired power plants impeding supply chains while a mid-month devaluation exercise imposing hefty translation losses. In this circumstance we expect the state OMC to post NPAT of PkR ~3.0bn (EPS: PkR9.19/sh on post-bonus number of shares) for 2QFY18 taking 1HFY18 NPAT to PkR8.03bn (EPS: PkR24.62/sh) down 17.3%YoY. Despite margin increments for MOGAS (OMC margin raised to PKR2.55/ltr from Nov'17 raised ~6%), and HSD sales showcasing strength (+15%QoQ), the overwhelming impact of demurrages, associated contingent expenses on deferred/delayed shipments (reportedly at ~US$15,000/day or US$105,000/week for at least six cargoes) is likely to soften margins significantly. The impact of bonus shares and signalled rise in CAPEX are expected to tone down pay-outs as well, where we expect an interim dividend of PkR5.0/sh accompanying the result.

Why this quarter is hard to swallow: Apart from operational roadblocks, ~5% mid-month depreciation of the PkR is expected to further exchange loss related charges by ~PKR452.8mn (PkR1.40/sh). During a period of rising prices and international benchmarks treading upwards, we believe potential inventory gain of PkR1.0bn(PkR3.07/sh) would be insufficient to meet the impact of PkR devaluation. Considering the role of the concessionary FE-25 facility, potential losses on the exchange side could be mitigated, however we believe longer lead times for PSO are likely to leave the OMC with a loss on the inventory procured in the middle of Dec'18 (post devaluation) and sold before monthly price adjustment were enacted in January'18.

2QFY18 preview: We expect Pakistan State Oil (PSO) to post NPAT of PkR ~3.0bn (EPS: PkR9.19/sh on post-bonus number of shares) for 2QFY18 taking 1HFY18 NPAT to PkR8.03bn (EPS: PkR24.62/sh) down 17.3%YoY. Despite margin increments for MOGAS (OMC margin raised to PKR2.55/ltr from Nov'17 raised ~6%), and HSD sales showcasing strength (+15%QoQ), the overwhelming impact of demurrages, associated contingent expenses on deferred/delayed shipments (reportedly at ~US$15,000/day or US$105,000/week for at least six cargoes) is expected to soften margins significantly. Accompanying the results we expect PSO to pay-out PkR5.0/sh as the interim dividend.

Investment Perspective: Remaining sanguine on the OMC, upsides to our estimates could arise in the form of greater than expected contribution from penal income, particularly from PIA (where supply disruptions were threatened, and fuel supply resumed after payment of dues) and HUBC. Additionally, inroads into the high margin lubricants segment, enhanced sourcing from local offtake and improved non-fuel retail revenues are expected to kick-in towards the end of FY18E.

Earnings Snapshot 2QFY18

(PkRmn)	2QFY18E	2QFY17	YoY	QoQ
Net sales	240,540	217,836	10%	-7%
Cost of products sold	232,820	209,649	11%	-7%
Gross Profit	7,720	8,186	-6%	-16%
Total Operating Exp.	4,048	3,086	31%	20%
Other income (non financial assets)	2,324	4,407	-47%	5%
Operating profit	5,996	9,506	-37%	-25%
Financial charges	1,715	1,567	9%	127%
Share of Profits in Associate	139	236	-41%	-12%
Profit before Tax	4,420	8,175	-46%	-40%
Provision For Tax	1,424	2,536	-44%	-40%
Profit After Tax	2,996	5,639	-47%	-40%
EPS @ current outstanding shares	9.19	17.30	-	-
EPS on pre-bonus no of shares	11.03	20.76	-	-

Source: Co. Report & AKD Research

Volumes Snapshot

PSO	2QFY18	YoY	QoQ
FO	1,255	-21%	-34%
HSD	1,160	-5%	15%
MOGAS	720	6%	-15%
HOBC (95/97RON)	13	17%	-11%
JP	182	26%	2%
KERO	19	3%	-11%
LDO	2	-14%	-36%
Total	3,351	-9%	-16%

Source: Co. Report & AKD Research

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

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

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.