

**Date**

26 April 2016

Company

Petron Corp.

First Look Corporate

PCOR Earnings recovery and growth; Rate BUY, Upgrade TP

Stock PCOR**Price** 10.70**52wk Range** 5.22 - 11.16**Rating** HOLD**Target** 13.80, 18x P/E**Upside** 29%**Issued Shares** 9,375.10mn**Market Cap** P100,313mn**Free Float** 23.85%**PSEi** 0.74%, 29/30**MSCI** N/A

We rate PCOR a BUY with a Target Price of P13.80/sh, 18x P/E, with an upside of 28%. FY15 Earnings almost double as it recovers from inventory losses and benefit from sales volume growth and better refining margins and 93% utilisation rate from RMP2.

FY15 Net doubled to P6.30 billion

- FY15 Net Income doubled to P6.30 billion from P3 billion, from recovery from inventory losses, sales volume growth, better refining margins from RMP2 and effective risk management.
- Combined sales volumes for Philippine and Malaysian operations increased 13% to 98 million barrels as service stations (+11%) and LPG (+16%) grew. Malaysian retailing gasoline volumes (+11%) benefited from rebranding and upgrading program. As of end 2015, there are over 2,200 stations in the Philippines and another 570 in Malaysia.
- Meanwhile, Sales Revenue dropped 25.3% to P360.20bn due to historic low oil prices (~50%), Operating Income jumped 138.2% to PhP18.10bn and EBIT(+340 bps to 5%) and profit (+110bps to 1.7%) margins improved.
- Benchmark Dubai crude averaged \$51 per barrel last year from \$97 the previous year. Dubai is currently averaging around \$37 per barrel.

RMP2 at 90% utilization rate

- By the start of 2016, RMP2 began producing an average of 90% utilization rate or 160,000 barrels per day (from 60%) with sales mix favoring higher margin products.
- The company said that higher utilisation has seen tremendous growth in the extraction of white product, meaning for every barrel, PCOR is now able to extract 93% economic liquid yield of gasoline or diesel.
- PCOR spent \$2 billion upgrading the RMP2 Bataan refinery and shelled out another \$700 million to put up a power plant to supply electricity to Petron and supply another 600 tons per hour of steam.

DA Market Estimate: FY16 Net Income P7.08 billion (+12%). We note upside risk but maintain conservative growth estimate as we look forward to 1Q16 results.

Note: President of Ramon S. Ang previously gave net profit guidance of P18 billion, citing that target even if global oil prices stay at \$30 per barrel.

	Actual		Forecast	
	2014	2015	2016	2017
Sales	482.54	360.18	345.97	410.67
		-25%	-4%	19%
EBITDA	13.64	24.41	33.25	31.59
		79%	36%	-5%
EBIT	7.61	18.13	24.12	22.10
		138%	33%	-8%
Net Income	3.00	6.30	7.08	7.90
		110%	12%	12%
EPS	0.32	0.67	0.76	0.84
		109%	13%	11%
BVPS	10.37	8.81	5.28	5.87
PBV		1.22	2.04	1.84
ROA%	0.89	1.64	3.99	4.78
ROE%	-1.44	1.52	7.29	8.02



Technicals

Current 10.70
 Support 9.90, 8.30
 Resistance 11.10, 12.74, 14.52
 Target 13.80, 29% upside

- From a low of 5.22 hit early in the year, the stock managed to exit a downtrend which has been in place since January 2013.
- MAC/D remains bullish on both long-term and short-term charts, RSI elevated on the short-term while still showing upside on the long-term. Break 11.11 may see continued momentum, meanwhile 9.90 is initial support.
- Current price indicates a BUY with with 29% upside to Fundamental TP 13.80.

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