Pakistan National Shipping Corp…*hidden giant*

PNSC is a national flag carrier and thus managing a fleet of 10 ships with all infrastructures rested at Karachi port. There are 4 oil tankers out of 10 wherein rest of them are bulk carriers. PNSC has nearly 16% market share in overall Pakistan's seaborne trade which included 40% share along in wet cargo.

Triggers…

- PNSCs bulk carriers are mostly engaged at high seas with long term charters.
- Nonetheless, oil tanking is main business, which is most lucrative and generates main revenue. Oil tanking business is mainly long-term contracts with local refineries. Pakistani refineries import 2/3rd of country's oil needs plus fuel oil, motor gasoline and diesel.
- PNSC recently added another oil tanker SHALIMAR to meet demand emanating from refineries. For that PNSC obtained financing of Rs4.5bn from NIB at K+0.5%. Lower financial charge is a key to bottom line growth of PNSC, going forward.
- PNSC fleet doesn't need deep sea port; all infrastructure is rested at Karachi Port Trust (KPT)
- PNSC set to attain benefit of China-Pakistan Economic Corridor (CPEC). The benefit would be in shape of transportation of coal imports which is set to increase given erection of new coal fired power plants across Pakistan. PNSC is a bulk carrier in imported coal business. Any plan in future to erect oil refinery at Gwadar, which is another new deep sea port & catering CPEC, would benefit PNSC in shape of oil imports.
- PNSC is also into real estate business with rental income coming from various buildings in sprawling Karachi city.

1Q Financials….sanguine

PNSC reported growth in 1QFY17 consolidated income from shipping business to Rs 3.64bn as against Rs2.94 reported in the corresponding last year. Increase in business is ostensibly due intensive activity of crude & petroleum imports from oil tankers alongside incremental revenue from new oil tanker.

PNSC indirectly benefits from falling diesel & fuel prices in global markets since operating cost has decreased manifold.

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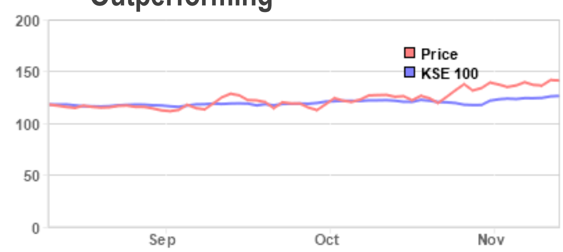
PNSC @141.2	
52 Week Low	63.01
52 Week High	143.12
Market cap	Rs18.65bn
Total no. of shares	132.06mn
Free float	11.59mn

Valuation	
Expected book value	Rs226.69/sh
PEG	0.30
Enterprise value	Rs 187/sh

Outperforming



Shalimar (newly added oil tanker)

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PNSC reported 1QFY17 consolidated EPS of Rs 4.92/sh (translating net earnings of Rs650mn) which is a complete turnaround from same period last year where national carrier reported EPS of Re0.45/sh.

Future looks bright…

We continue to see Karachi being major Pakistani port in next 10 years and expecting oil needs to be catered due to existence of three major refineries namely Pak Arab Refinery, Pakistan Refinery (PRL) & National Refinery (NRL) and also BYCO Refinery at Hub, Balochistan. At present refineries such PRL & NRL are going through desulfurization expansion and already carried out isomerization (conversion of excess Naphtha into Motor Gasoline).

These structural changes in refineries would induce PNSC to handle more crude given enhanced oil needs of the country (local oil production of Pakistan is not more than 70k barrels per day as against demand of 400k barrels per day).

PNSC consolidated revenue is set to increase up to Rs16bn in FY17 with EPS perspective of Rs20/sh to Rs21/sh. PNSC has a payout ratio of 10%.

Valuations…

PNSC yields FY17 PE of 6.7x - 6.9x & PEG of 0.3 albeit enterprise value of Rs187/sh (keeping in view of our estimated enterprise value of Rs25bn. PNSC is grossly undervalued.