

Day Break

Wednesday, 14 February 2018

COMPANY UPDATE

Pakistan State Oil Company Limited
 Oil & Gas Marketing Companies

Recommendation	BUY
Target Price:	385.2
Last Closing: 13-Feb-18	308.1
Upside:	25.0
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

Market Data

Bloomberg Tkr.	PSO PA		
Shares (mn)	326.0		
Free Float Shares (mn)	146.7		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn USDmn)	100.4	908.0	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(13.9)	(34.1)	(35.6)
Lo	265.2	265.2	265.2
Hi	357.2	466.6	477.1

Key Company Financials

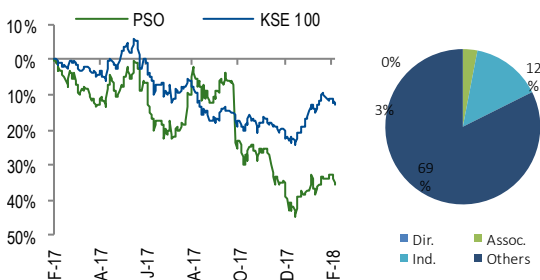
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	878.1	779.7	807.7	892.3
Net Income	18.2	15.4	13.6	15.4
EPS (PKR)	55.9	47.4	41.7	47.2
DPS (PKR)	25.0	17.0	15.0	17.0
Total Assets	392.4	336.3	324.6	307.3
Total Equity	102.8	113.3	122.0	131.8

Key Financial Ratios

ROE (%)	17.7	13.6	11.1	11.7
P/E (x)	5.5	6.5	7.4	6.5
P/B (x)	1.0	0.9	0.8	0.8
DY (%)	8.1	5.5	4.9	5.5

Relative Price Performance



About the Company

Pakistan State Oil was incorporated in Pakistan in 1976. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

Source: Bloomberg, PSX & IGI Research

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Oil & Gas Marketing Companies

PSO: Exchange loss to drag down EPS in 2QFY18 to PKR 10.62

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 21st Feb-18 to announce financial result for 2QFY18, where we expect the Company to post earnings of PKR 3.46bn (EPS PKR 10.62), down by 39%YoY.
- We estimate the decline in earnings is primarily attributable to exchange losses of PKR 2.13bn (PKR 6.5/share) during 2QFY18 as PKR depreciated by nearly 4.5% in Dec-17. Inventory at Port was stuck for nearly 30-45 days leading to a demurrage charge of PKR 426mn (PKR 1.31/share) on 6 cargoes, based on our estimates.
- However, this decline in earnings is expected to be compensated by estimated inventory gains of PKR 474mn.
- We have a 'BUY' call on PSO with our Dec-18 target price of PKR 385/share, offering +25% upside from its last close.

Earnings to clock in at PKR 10.62/share for 2QFY18, down by 39%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 21st Feb-18 to announce financial result for 2QFY18, where we expect the Company to post earnings of PKR 3.46bn (EPS PKR 10.62), down by 39%YoY, compared to PKR 5.64bn (EPS PKR 17.30) in the same period last year. As a result, earnings for 1HFY18 are expected to compress by 15%YoY to PKR 8.49bn (EPS PKR 26.04) compared to PKR 10.02bn (EPS PKR 30.72) in the same period last year. We expect, the Company to announce cash dividend of PKR 5/share along with the result.

We estimate the decline in earnings is primarily attributable to exchange losses of PKR 2.13bn (PKR 6.50/share) during 2QFY18 as PKR depreciated by nearly 4.5% in Dec-17. Further, the Company incurred demurrage charges of USD 25,000/day on inventory stuck at Port as ban was imposed on FO based IPPs in Oct-17. Inventory at Port was stuck for nearly 30-45 days leading to a demurrage charge of PKR 426mn (PKR 1.31/share) on 6 cargoes, based on our estimates. However, this decline in earnings is expected to be compensated by estimated inventory gains of PKR 474mn.

Exhibit:

Financial Highlights

PKRmn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Net Sales	259,422	217,836	19%	518,067	411,348	26%
Gross Profit	10,372	8,186	27%	19,562	17,892	9%
Operating Costs	5,661	3,086	83%	9,046	6,766	34%
Other Income	1,899	4,407	-57%	4,112	6,316	-35%
EBIT	6,611	9,506	-30%	14,628	17,441	-16%
Finance Cost	1,653	1,567	5%	2,409	2,846	-15%
PBT	5,090	8,175	-38%	12,509	14,961	-16%
PAT	3,461	5,639	-39%	8,490	10,015	-15%
EPS (PKR)	10.62	17.30		26.04	30.72	
DPS (PKR)	5.00	-		5.00	-	

Source: IGI Research, Company Financials

No of Shares: 326.02 mn

Volumes down by 9%YoY during 2QFY18

Total volumes dropped by 9%YoY to 3.35mn Mtons on the back 21%/5%YoY decline in FO/HSD sales despite +6%/+14%YoY increase in MS/JP-1 sales. FO sales plummeted substantially as Government of Pakistan (GoP) imposed ban on inefficient FO based power plants in Oct-17. This leads to total sales for 1HFY18 to 7.3mn Mtons (down by 0.3%YoY) led by +17%/+9%/+9%YoY growth in MS/JP-1/HSD sales, offset by 14%YoY decline in FO sales.

Exhibit:

Volumes breakup for 2QFY18 - (000'Mtons)

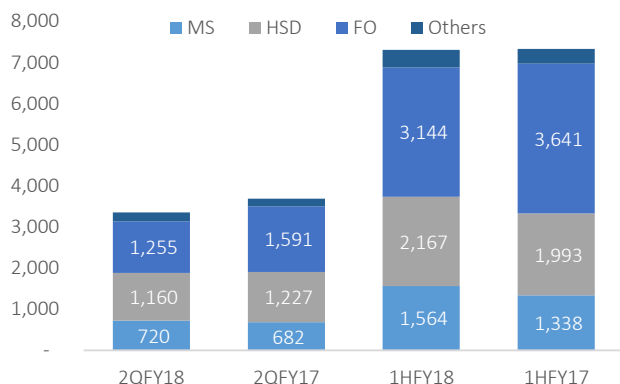
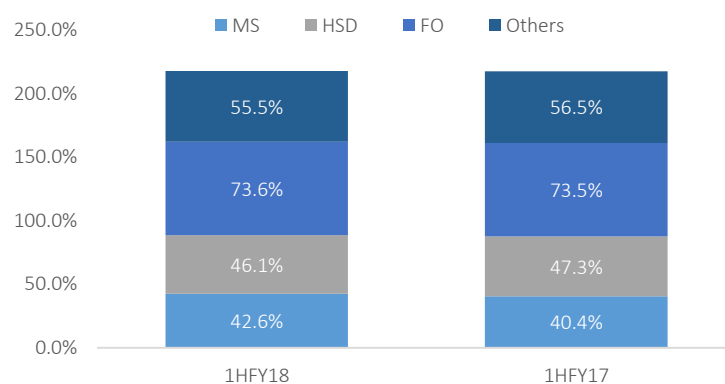


Exhibit:

Market share during 1HFY18 product wise - (%)



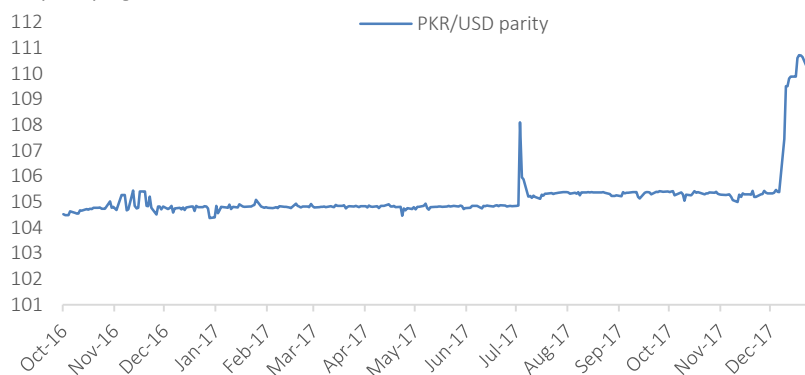
Source: IGI Research, Company Financials

PKR depreciation of nearly 4.5% in Dec-17 to dent earnings in 2QFY18

During Dec-17, PKR depreciated by nearly 4.5% to average around PKR 106.45/USD compared to PKR 105.37/USD in the preceding quarter (PKR 104.78/USD during 2QFY17). As a result, we expect the company to book hefty exchange losses during 2QFY18 to the tune of PKR 2.13bn (PKR 6.50/share).

Exhibit:

PKR parity against USD



Source: IGI Research, Bloomberg

Recommendation

We have a 'BUY' call on PSO with our Dec-18 target price of PKR 385/share, offering +25% upside from its last close. The company is currently trading at FY18E P/E of 6.5x and offers a decent dividend yield of 5.5%.

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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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