

## Day Break

Tuesday, 25 April 2017

## COMPANY UPDATE

PAKISTAN STATE OIL COMPANY LIMITED  
OIL & GAS MARKETING COMPANIES

<b>Recommendation</b>	<b>BUY</b>
Target Price:	519.1
Last Closing:	24-Apr-17 457.8
Upside:	13.4
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	Dec-17

## Market Data

Bloomberg Tkr.	PSO PA		
Shares (mn)	271.7		
Free Float Shares (mn)	122.3		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn   USDmn)	124.4	1,186.1	
Exchange	KSE 100		
<b>Price Info.</b>	90D	180D	365D
Abs. Return	(8.5)	(4.7)	(9.0)
Lo	411.8	411.8	411.8
Hi	486.1	438.1	459.1

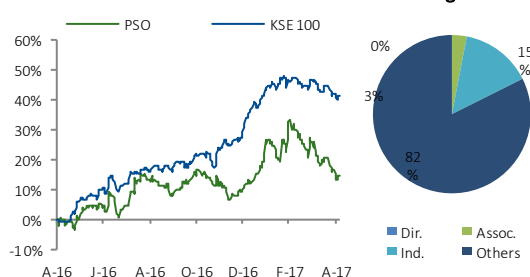
## Key Company Financials

Period End: Jun				
<b>PKRbn</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18F</b>	<b>FY19F</b>
Total Revenue	831.5	963.5	1,070.9	1,186.6
Net Income	10.27	18.4	19.5	22.6
EPS (PKR)	37.8	67.7	71.8	83.1
DPS (PKR)	12.5	18.0	22.0	25.0
Total Assets	342.3	379.1	411.8	421.8
Total Equity	91.6	105.6	119.2	134.9

## Key Financial Ratios

ROE (%)	11.2	17.4	16.4	16.7
P/E (x)	12.1	6.8	6.4	5.5
P/B (x)	1.4	1.2	1.0	0.9
DY (%)	2.7	3.9	4.8	5.5

## Relative Price Performance &amp; Shareholding



## 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, KSE 100 &amp; IGI Research

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## Oil &amp; Gas – Marketing Companies

## PSO: Analyst Briefing Takeaway 3QFY17

- Pakistan State Oil Company Limited (PSO) held its analyst briefing on 24<sup>th</sup> Apr-17 to discuss financial results for 3QFY17 and future prospects of the company and reported earnings of PKR 4.14bn (EPS PKR 15.24) during 3QFY17 as compared to a loss of PKR 2.13bn (LPS PKR 7.85). The company announced cash dividend of PKR 10.0/share along with the result.
- The company reported earnings of PKR 14.16bn (EPS PKR 52.10) during 9MFY17 as compared to PKR 4.59bn (EPS PKR 16.91) in the same period last year.
- We maintain our “BUY” call on PSO with our revised Dec-17 target price of PKR 519/share (up by +4% from previous PKR 497/share), offering +13% upside from its last closing.

## 3QFY17 earnings reported at PKR 15.24/share, DPS PKR 10.0

Pakistan State Oil Company Limited (PSO) held its analyst briefing on 24<sup>th</sup> Apr-17 to discuss financial results for 3QFY17 and future prospects of the company. The company reported earnings of PKR 4.14bn (EPS PKR 15.24) during 3QFY17 as compared to a loss of PKR 2.13bn (LPS PKR 7.85) in the same period last year. Earnings during 3QFY17 were primarily driven by inventory gains of PKR 619mn as compared to an inventory loss of PKR 7.56bn in the same period last year. The company announced higher than expected cash dividend of PKR 10.0/share along with the result.

## Highest ever 9 months operating profit before inventory gains/losses

The company reported earnings of PKR 14.16bn (EPS PKR 52.10) during 9MFY17 as compared to PKR 4.59bn (EPS PKR 16.91) in the same period last year. This substantial growth in earnings is primarily attributable to a) inventory gains of PKR 685mn as compared to an inventory loss of PKR 7.93bn in the same period last year, b) +21%/+25%/+132%YoY jump in Jet Fuel/Lubes/LNG volumes, c) LPS income up by +44%YoY leading to +17%YoY rise in other income, and d) finance cost down by 14%YoY due to sub-par rates obtained (KIBOR+0.6%) during 3QFY17 on short term financing.

Exhibit:

## Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Gross Sales	268,308	187,370	43%	786,077	650,729	21%
Net Sales	218,160	134,615	62%	629,498	488,568	29%
Gross Profit	9,232	(610)	N/M	27,041	13,269	104%
Operating Costs	2,904	3,068	-5%	9,587	8,997	7%
Other Income	1,703	1,602	6%	8,019	6,861	17%
EBIT	8,031	(2,076)	N/M	25,472	11,133	129%
Finance Cost	1,485	1,414	5%	4,331	5,015	-14%
PBT	6,716	(3,265)	N/M	21,677	6,731	222%
PAT	4,141	(2,132)	N/M	14,156	4,594	208%
EPS (PKR)	15.24	(7.85)		52.10	16.91	
DPS (PKR)	10.00	-		10.00	5.00	

Source: IGI Research and Company Financials

No of Shares: 271.69 mn

**Exhibit: Receivables Position for PSO**

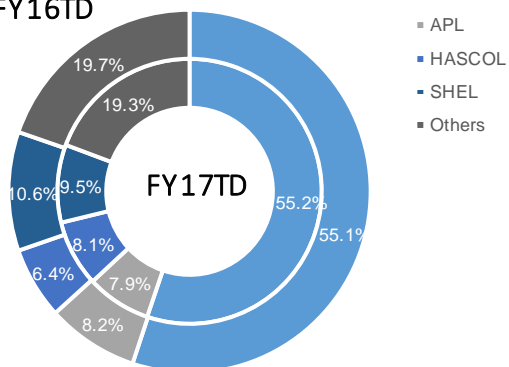
PKR'bn	Apr-17	Mar-17	Feb-17	Dec-16	Jun-16
Power Sector	181.2	175.1	182.0	167.0	147.0
LNG	11.9	14.7	5.0	4.0	11.0
PIA	14.2	13.7	14.0	14.0	12.0
PDC	9.6	9.6	9.6	9.6	9.6
<b>Total</b>	<b>216.9</b>	<b>213.1</b>	<b>210.9</b>	<b>195.0</b>	<b>180.0</b>

**Exhibit: MS, HSD and FO Margins**

PKR	Current	FY17TD	FY16TD
MS (ltr)	2.41	2.40	2.31
HSD (ltr)	2.41	2.31	2.28
FO (mTon)	1,243	1,021	958

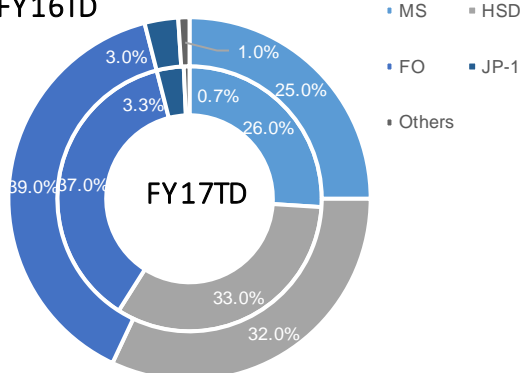
**Exhibit: Market Share - Company wise (FY17TD)**

FY16TD



**Exhibit: POL Consumption - Company wise (FY17TD)**

FY16TD



**Key highlights of analyst briefing as stated by the management**

The company held its 3QFY17 analyst briefing yesterday. Key highlights of the analyst briefing included:

- The company revised its strategy with primary focus on sale of Jet fuel (Shaheen, Air Blue, etc.) and HSFO/LSFO to only cash based customers which resulted in +15%/+21%YoY growth in FO/Jet fuel sales,
- Receivables piled up to PKR 213bn as at Mar-17 resulting in LPS income increasing by +44%YoY to PKR 1.3bn,
- The company has increased its number of shipments per months to 6 ships carrying nearly 50,000-60,000 Mtons per ship of POL products,
- PSO still awaits clarity on shift of LNG business to Pakistan LNG Ltd. For which the previous deadline communicated by the Government was Dec-16 and now has been extended to Jul-17. However, the company expects further delays in the process,
- PSO is continuously pursuing OGRA for lifting of ban on expansion in retail network and is confident that it will be lifted, as the company is actively pursuing expansion of storage capacity,
- Pakistan Refinery Limited (PRL) is likely to announce expansion and new projects with high IRR once Supreme Court gives clearance for increasing company's shareholding,
- There has been no exclusive contracts being awarded to OMCs for retail outlet on highways under CPEC and the company has not initiated any strategy at this point in time to cater CPEC demand,
- Although annual revision of MS/HSD OMC margin with CPI remains intact, but PSO's management pointed out strong pursuance with concerned Ministries to ensure it is being granted persistently in the coming years.

**Outlook**

The company's management foresees lubricant sales to jump up by +20%YoY in FY17 to 35kton (high margin product having margin of nearly PKR 100,000/ton). The company further expects to increase its retail outlets to cater rising demand and company under performance compared to industry growth. Furthermore, FO profit contribution (up by +6.6%YoY in FY17TD) is expected to further lift profitability as margins and de regulated and linked with price. The Company is expected to increase its storage capacity by 300k Mton in the coming years which is expected to reduce PSO's vulnerability to heavy inventory loss/gain and ease storage concerns especially for MS. Moreover, shelter to heavy inventory losses is expected to emanate from fortnightly revision in POL prices which was previously done on monthly basis.

**Recommendation**

We have revised our earnings for FY17E/FY18F by +15%/+22% for PSO based on a) increase HOBC/FO/Jet fuel/Lubes sales and b) increased FO margins as prices have increased substantially in FY17TD. We maintain our "BUY" call on PSO with our revised Dec-17 target price of PKR 519/share (up by +4% from previous PKR 497/share), offering +13% upside from its last closing. The company is currently trading at a FY17E P/E of 6.5x and offers a dividend yield of 4%.

Source: Company Financials, IGI Research

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec - 2017

**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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