

Day Break

Friday, 20 October 2017

COMPANY UPDATE

PAKISTAN STATE OIL COMPANY LIMITED OIL & GAS MARKETING COMPANIES

| | |
|-------------------------|----------------------------|
| Recommendation | BUY |
| Target Price: | 445.3 |
| Last Closing: 19-Oct-17 | 353.2 |
| Upside: | 26.1 |
| Valuation Methodology: | Discounted Cash Flow (DCF) |

Time Horizon: Jun-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) | 115.1 1,092.7 |
| Exchange | KSE 100 |

Price Info.

| | | | |
|-------------|-------|--------|--------|
| | 90D | 180D | 365D |
| Abs. Return | (9.3) | (20.4) | (17.3) |
| Lo | 335.1 | 335.1 | 335.1 |
| Hi | 466.6 | 475.3 | 486.1 |

Key Company Financials

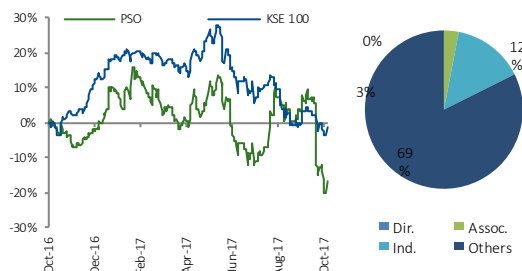
Period End: Jun

| PKRbn | FY16A | FY17A | FY18E | FY19F |
|-------------------|-------|-------|-------|-------|
| Total Revenue | 678.0 | 878.1 | 885.5 | 982.7 |
| Net Income | 10.3 | 18.2 | 17.9 | 18.0 |
| Basic EPS (PKR) | 37.8 | 67.1 | 65.9 | 66.2 |
| Diluted EPS (PKR) | 31.5 | 55.9 | 55.0 | 55.1 |
| DPS (PKR) | 12.5 | 25.0 | 20.0 | 20.0 |
| Total Assets | 342.3 | 392.4 | 319.2 | 341.2 |
| Total Equity | 91.6 | 102.8 | 115.3 | 127.9 |

Key Financial Ratios

| | | | | |
|---------|------|------|------|------|
| ROE (%) | 11.2 | 17.7 | 15.5 | 14.1 |
| P/E (x) | 11.2 | 6.3 | 6.4 | 6.4 |
| P/B (x) | 1.3 | 1.1 | 1.0 | 0.9 |
| DY (%) | 3.5 | 7.1 | 5.7 | 5.7 |

Relative Price Performance & 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, PSX & IGI Research

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Oil & Gas Marketing Companies

PSO: Earnings to clock in at PKR 4.7bn for 1QFY18, up by +7%YoY

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 22nd Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 4.7bn (Diluted EPS PKR 14.33) up by +7%YoY
- On quarterly basis, earnings are expected to augment by +15%YoY during 1QFY18, on the back of a) +7%QoQ rise in total volumes led by +25%/+5%QoQ increase in MS/HSD sales and, b) lower effective tax rate of 35% compared to 47% reported in 4QFY17
- We have a 'BUY' call on PSO with our Jun-18 target price of PKR 445/share (bonus adjusted), offering +26% upside from its last close. The company is currently trading at FY18F P/E of 6.4x and offers a decent dividend yield of 5.7%

PSO: Earnings to clock in at PKR 14.33/share for 1QFY18, up by +7%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 22nd Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 4.7bn (Diluted EPS PKR 14.33) up by +7%YoY compared to PKR 4.4bn (Diluted EPS PKR 13.42) in the same period last year. This growth in earnings is primarily attributable to a) increase in total volumes by +9%YoY led by +29%/+32%/+2.5xYoY rise in MS/HSD/JP-1 sales, b) lower inventory losses of nearly PKR 71mn, c) FO prices up by +20%YoY leading to higher profit contribution and, d) higher income from LNG owing to increase in quantity imported of nearly 600mmcf as compared to 450mmcf in same period last year.

Earnings to incline by +15%QoQ on lower effective tax

On quarterly basis, earnings are expected to augment by +15%QoQ during 1QFY18, on the back of a) +7%QoQ rise in total volumes led by +25%/+5%QoQ increase in MS/HSD sales and, b) lower effective tax rate of 35% compared to 47% reported in 4QFY17. However, earning growth is expected to be diluted due to substantial decline of 30%QoQ in other income in the absence of PIB income and increase in operating costs. As a result we estimate profit before tax to stand 6%QoQ lower than reported in 4QFY17, however lower effective tax is likely to fetch earnings growth of 15%QoQ.

Exhibit:

PSO Financial Highlights

| PKRmn | 1QFY18E | 1QFY17 | YoY | 4QFY17 | QoQ |
|----------------------------|--------------|--------------|-----|--------------|------|
| Net Sales | 259,833 | 193,512 | 34% | 248,638 | 5% |
| Gross Profit | 10,244 | 9,705 | 6% | 10,075 | 2% |
| Operating Costs | 3,813 | 3,680 | 4% | 3,612 | 6% |
| Other Op. Income | 1,895 | 1,909 | -1% | 2,726 | -30% |
| EBIT | 8,326 | 7,935 | 5% | 9,189 | -9% |
| Finance Cost | 1,268 | 1,279 | -1% | 1,592 | -20% |
| Profit Before Taxation | 7,190 | 6,786 | 6% | 7,670 | -6% |
| Profit After Taxation | 4,673 | 4,376 | 7% | 4,069 | 15% |
| EPS Diluted (PKR) * | 14.33 | 13.42 | | 12.48 | |
| DPS (PKR) | - | - | | 15.00 | |

Source: IGI Research, Company Financials

Shares mn: 326.02 mn

*EPS calculated on bonus adjusted no. of shares of 326mn

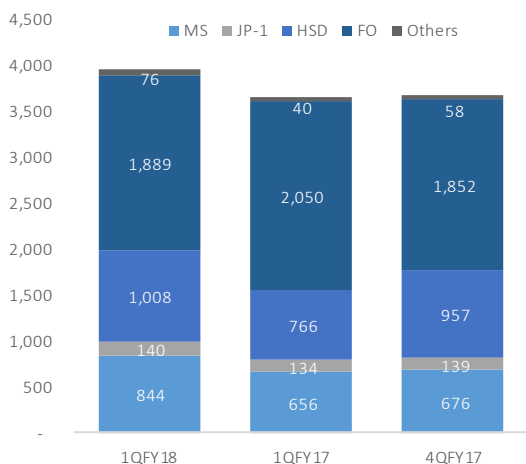
Receivables Position for PSO

| PKR'bn | Aug-17 | FY17 | FY16 |
|--------------|--------------|--------------|--------------|
| Power Sector | 184.2 | 176.1 | 146.5 |
| LNG | 2.7 | 14.0 | 11.0 |
| PIA | 13.6 | 13.3 | 12.3 |
| PDC | 9.6 | 9.6 | 9.6 |
| Total | 210.1 | 213.0 | 179.4 |

High receivables looming over cash position for PSO

During FY17, PSO’s receivables piled up to PKR 213bn as at Jun-17 (up by +19%YoY) without any resolution towards rising circular debt. Although LNG receivables were down to PKR 2.7bn in Aug-17, power sector receivables piled up to PKR 184bn from PKR 176bn as at Jun-17. As a result, we highlight potential risk of higher borrowings despite PIBs amount received been utilized to partially pay off short term borrowings. Based on this, we assume finance cost to drop but to remain on the higher side while company’s continuous efforts with customers to receive outstanding amount of penal interest income should dilute the substantial drop in other income owing to maturity of PIBs in Jul-17.

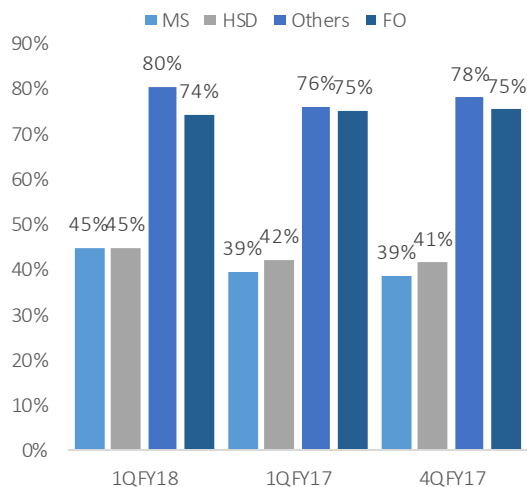
Quarter wise sales mix - 1QFY18 (000'Mton)



Recommendation

We have a **‘BUY’** call on PSO with our Jun-18 target price of PKR 445/share (bonus adjusted), offering +26% upside from its last close. The company is currently trading at FY18F P/E of 6.4x and offers a decent dividend yield of 5.7%.

Quarter market share - 1QFY18 (%)



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) |
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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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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