

Flash Note

Wednesday, 30 October 2019

Oil & Gas - Marketing Companies

Pakistan State Oil Company Limited (PSO)

Lower inventory gains and higher finance cost drags 1QFY20 EPS to PKR 7.52 despite increase in total volumes

- Pakistan State Oil Company Limited (PSO) announced financial results for 1QFY20 with un-consolidated earnings clocking in at PKR 3.53bn (EPS: PKR 7.52) down by 16% YoY compared to PKR 4.18bn (EPS: PKR 8.91) in the same period last year. On sequential basis, earnings are down by 24% QoQ.
- We attribute this decline in earnings during 1QFY20 to a) lower inventory gains in our view estimated at PKR 1.2bn compared to PKR 1.8bn in the same period last year and, b) higher finance cost owing to higher ST borrowing and rise in interest rates.
- Net Revenue increased by +18% YoY to PKR 329.78bn during 1QFY20, likely on the back of increase in domestic MS, HSD and FO prices due to surge in international oil prices and +10% YoY rise in total volumes led by +27%/+9%/+1% YoY growth in FO/MS/HSD sales.
- Gross profit dropped by 2% YoY to PKR 10.71bn during 1QFY20 as against PKR 10.91bn in similar period last year likely owing to lower inventory gains despite rise in total volumes thus leading to 65bpsYoY decline in gross margins to 3.25%.
- Operating charges plummeted by 63% YoY to PKR 0.29bn during 1QFY20 as against PKR 0.79bn in similar period last year likely in the absence of exchange losses.
- Other income leaped up by +63% YoY to PKR 1.58bn during 1QFY20 compared to PKR 0.97bn in the corresponding period last year likely owing to higher penal interest income booked during the quarter.
- Finance cost surged by +45% YoY to PKR 2.64bn during 1QFY20 against PKR 1.83bn in the same period last year likely owing to elevated mark-up cost on short term borrowings. This is likely due to substantial rise in circular debt with PSO's short term borrowings crossing PKR 100bn.
- Effective tax rate remained flat at 43.2% during 1QFY20 compared to 36.6% (4QFY19: 31.3%) reported in the corresponding period last year.

Exhibit:

PSO Financial Highlights

PKRmn	1QFY20	1QFY19	YoY	4QFY19	QoQ
Net Sales	329,783	280,028	18%	335,790	-2%
Gross Profit	10,706	10,906	-2%	12,133	-12%
S&D Expense	2,565	2,068	24%	2,927	-12%
Admin Expense	725	721	1%	1,217	-40%
Other Charges	289	792	-63%	2,880	-90%
Other Op. Income	1,584	970	63%	3,713	-57%
EBIT	8,712	8,296	5%	8,823	-1%
Finance Cost	2,640	1,826	45%	2,163	22%
Profit Before Taxation	6,216	6,590	-6%	6,784	-8%
Taxation	2,688	2,409	12%	2,123	27%
Profit After Taxation	3,528	4,181	-16%	4,660	-24%
EPS (PKR) @ 469.47mn shares	7.52	8.91		9.93	
DPS (PKR)	-	-		-	

Source: IGI Research, Company Financials

No of Shares: 469.47mn

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and 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.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited



Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2019 IGI Finex Securities Limited


Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>