

Day Break

Tuesday, 28 April 2020



COMPANY UPDATE

Pakistan State Oil Company Limited

Oil & Gas Marketing Companies

Recommendation	BUY
Target Price: Dec/20	248.5
Last Closing: 27-Apr-20	140.6
Upside (%):	76.8
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

Market Data

Bloomberg Tkr.	PSO PA		
Shares (mn)	469.5		
Free Float Shares (mn)	211.3		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn USDmn)	66.0	427.6	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(29.6)	7.7	(27.2)
Lo	114.0	114.0	114.0
Hi	216.1	216.9	216.9

Key Company Financials

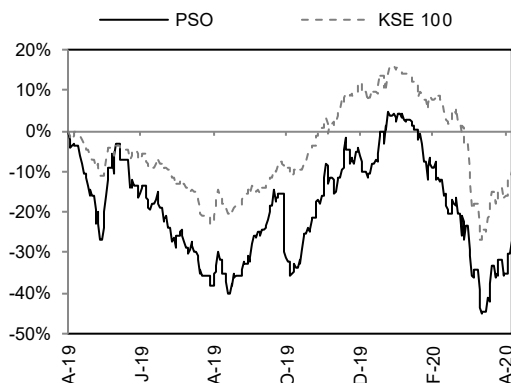
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	1,154.3	1,000.9	771.4	908.9
Net Income	10.6	9.7	9.4	13.8
EPS (PKR)	22.5	20.7	19.9	29.3
DPS (PKR)	10.0	8.0	7.0	11.0
Total Assets	417.1	386.8	370.6	366.1
Total Equity	119.2	126.1	132.0	140.7

Key Financial Ratios

ROE (%)	14.5	9.2	7.9	7.3
P/E (x)	6.2	6.8	7.0	4.8
P/B (x)	0.6	0.6	0.5	0.5
DY (%)	7.1	5.7	5.0	7.8

Relative Price Performance



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Oil & Gas Marketing Companies

PSO: Earnings to clock in at PKR 4.58 on account of higher penal income and inventory gains

- ✓ Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 29th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 2.15bn (EPS PKR 4.58), up by +28%YoY,
- ✓ We estimate incline in earnings on the back a) likely inventory gains and, b) elevated other income owing higher penal income. However, growth in earnings is expected to be limited by 26%YoY drop in total volumes led by 69%/23%/7%YoY decline in FO/MS/HSD sales,
- ✓ On quarterly basis, earnings are expected to drop by 26%QoQ during 3QFY20. We expect the decline in earnings on sequential basis on the back of a) absence of exchange gains booked in 2QFY20, b) drop in other income on account of lower penal interest income and, c) 34%QoQ drop in total volumes led by FO/HSD/MS
- ✓ We recommend a "BUY" stance on PSO with our Dec-20 target price of PKR 249/share offering 77% upside from last close. The company is currently trading at FY21 P/E of 7.0x.

Earnings to clock in at PKR 4.58/share for 3QFY20, up by +28%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 29th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 2.15bn (EPS PKR 4.58), up by +28%YoY, compared to PKR 1.68bn (EPS PKR 3.57) in the same period last year. We estimate incline in earnings on the back a) likely inventory gains and, b) elevated other income owing higher penal income. However, growth in earnings is expected to be limited by 26%YoY drop in total volumes led by 69%/23%/7%YoY decline in FO/MS/HSD sales. We expect exchange losses to remain on the lower side owing to 60 day period allowed by ECC to adjust exchange rate movement. For inventory gains we estimate gains on MS due to lower storage capacity and increase in PDL while on HSD we estimate inventory losses which would likely be offset by favorable movement in PDL.

Exhibit: Financial Highlights

PKRmn	3QFY20	3QFY19	YoY	9MFY20E	9MFY19	YoY
Net Sales	250,161	246,656	1%	892,499	818,508	9%
Gross Profit	7,748	7,887	-2%	25,425	23,884	6%
Operating Costs	4,516	2,557	77%	11,886	10,089	18%
Other Op. Income	4,167	942	342%	11,146	3,592	210%
EBIT	7,399	6,272	18%	24,685	17,387	42%
Finance Cost	3,869	2,920	32%	10,409	6,776	54%
PBT	3,585	3,500	2%	14,643	10,693	37%
Taxation	1,434	1,823	-21%	6,057	4,767	27%
PAT	2,151	1,677	28%	8,586	5,926	45%
EPS (PKR)	4.58	3.57		18.29	12.62	
DPS (PKR)	-	-		-	-	

Source: IGI Research, Company Financials

No of Shares: 469.47mn

Earnings to drop by 26%QoQ in the absence of exchange gains and lower volumes

On quarterly basis, earnings are expected to drop by 26%QoQ during 3QFY20. We expect the decline in earnings on sequential basis on the back of a) absence

of exchange gains booked in 2QFY20, b) drop in other income on account of lower penal interest income and, c) 34%QoQ drop in total volumes led by FO/HSD/MS.

Volumes depict 26%YoY drop during 3QFY20

Total volumes for PSO were down by 26%YoY primarily led by FO/HSD/MS down by 69%/23%/7%YoY. This drop in volumes includes only 1-1.5 week impact of lockdown due to Covid-19 towards end of Mar-20. Thus total volumes are down by 2%YoY during 9MFY20 primarily led by 24%/3%YoY drop in FO/HSD sales however MS volumes are up by +6%YoY. PSO performed relatively better compared to the industry where total volumes are down by 11%YoY during 9MFY20 led by 33%/15%/1%YoY drop in FO/HSD/MS sales.

Exhibit: PSO total volumes for 9MFY20 (mn mtons)

Total volumes are down by 26%YoY during 3QFY20 led by FO/HSD

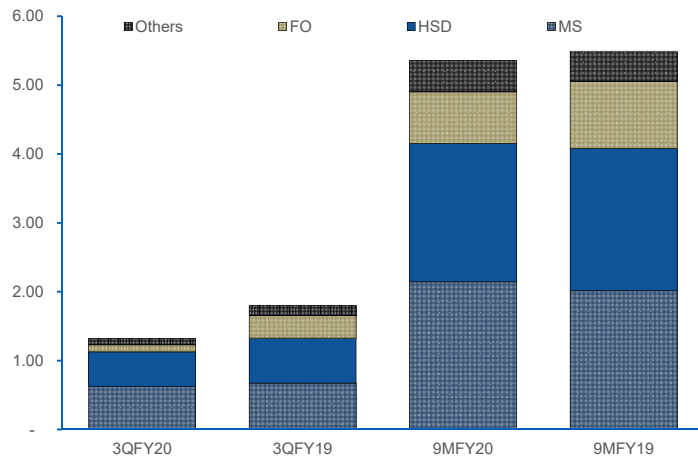
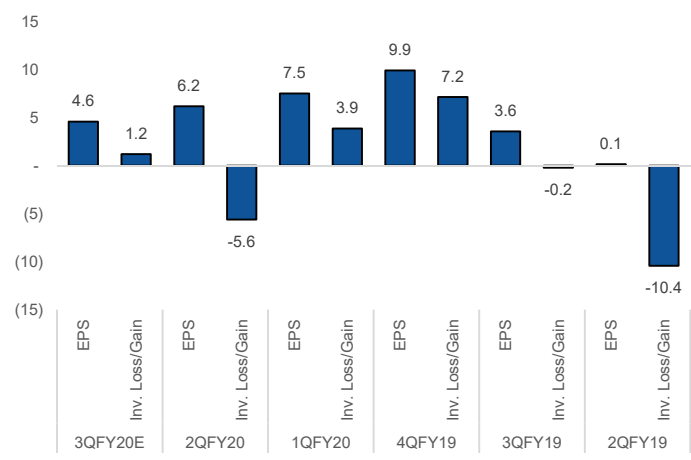


Exhibit: PSO EPS and inventory (losses)/gains (PKR/share)

PSO's quarterly EPS in comparison with contribution of inventory losses/gains before tax



Recommendation

We recommend a **“BUY”** stance on PSO with our Dec-20 target price of PKR 249/share offering 77% upside from last close. The company is currently trading at FY21 P/E of 7.0x.