

# Day Break

Friday, 15 February 2019

## COMPANY UPDATE

### Pakistan State Oil Company Limited

Oil &amp; Gas Marketing Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price:	302.6
Last Closing: 14-Feb-19	228.2
Upside:	32.6
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	Dec-19

### Market Data

Bloomberg Tkr.	PSO PA		
Shares (mn)	391.2		
Free Float Shares (mn)	176.1		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn   USDmn)	89.3	640.9	
Exchange	KSE ALL		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	(15.3)	(17.0)	(9.8)
Lo	225.4	213.7	213.7
Hi	281.3	293.4	293.4

### Key Company Financials

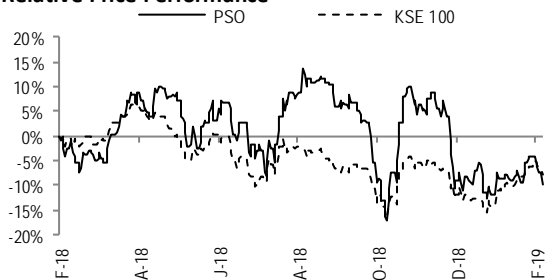
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	1,056.9	1,191.4	971.6	1,023.3
Net Income	15.5	13.0	15.2	14.6
EPS (PKR)	39.5	33.2	38.8	37.4
DPS (PKR)	15.0	13.0	15.0	14.0
Total Assets	392	403	383	382
Total Equity	110	119	128	137

### Key Financial Ratios

ROE (%)	14.0	10.9	11.8	10.6
P/E (x)	5.8	6.9	5.9	6.1
P/B (x)	1.2	0.8	0.8	0.7
DY (%)	6.6	5.7	6.6	6.1

### 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 &amp; IGI Research

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## Oil & Gas Marketing Companies

### PSO: Exchange and inventory loss to drag down 2QFY19 EPS to PKR 3.18 down by 64%YoY

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 16<sup>th</sup> Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 1.25bn (EPS PKR 3.18), down by 64%YoY,
- We estimate drop in earnings on the back a) 72%/37%/15%YoY drop in FO/HSD/MS sales, b) likely inventory loss of PKR 1.1bn as against inventory gain of PKR 1.8bn and exchange loss of PKR 0.9bn, c) higher finance cost amid rise in short term borrowings and, d) higher effective tax rate,
- We have a 'BUY' call on PSO with our Dec-19 target price of PKR 302.6/share, offering +33% upside from its last close. The company is currently trading at FY19E P/E of 6.9x and offers a decent dividend yield of 5.7%.

### Earnings to clock in at PKR 3.18/share for 2QFY19, down by 64%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 16<sup>th</sup> Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 1.25bn (EPS PKR 3.18), down by 64%YoY, compared to PKR 3.49bn (EPS PKR 8.93) in the same period last year. We estimate drop in earnings on the back a) 72%/37%/15%YoY drop in FO/HSD/MS sales, b) likely inventory loss of PKR 1.1bn as against inventory gain of PKR 1.8bn and exchange loss of PKR 0.9bn, c) higher finance cost amid rise in short term borrowings and, d) higher effective tax rate.

On quarterly basis, earnings are expected to drop by 70%QoQ during 2QFY19. We expect the drop in earnings on sequential basis on the back of a) inventory loss emanating from HSD as against inventory gains of PKR 1.8bn in 1QFY19 while expect marginal gain on MS, b) higher effective tax rate and, b) 17%QoQ drop in MS sales despite +12%/+7%QoQ growth in FO/HSD sales.

Exhibit:

### Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	266,609	259,708	3%	546,637	518,353	5%
Gross Profit	6,826	9,540	-28%	17,732	18,712	-5%
Operating Costs	4,059	3,665	11%	7,640	7,050	8%
Other Income	1,147	756	52%	2,117	2,969	-29%
EBIT	3,913	6,631	-41%	12,209	14,631	-17%
Finance Cost	1,894	1,023	85%	3,720	1,779	109%
Profit Before Taxation	2,147	5,660	-62%	8,737	13,062	-33%
Taxation	902	2,168	-58%	3,311	4,558	-27%
Profit After Taxation	1,245	3,493	-64%	5,426	8,522	-36%
<b>EPS (PKR)</b>	<b>3.18</b>	<b>8.93</b>		<b>13.87</b>	<b>21.78</b>	
DPS (PKR)	-	-		-	-	

Source: IGI Research, Company Financials

No of Shares: 391.23mn

### Volumes down by 45%YoY during 2QFY19 amid lower HSD/FO sales

Total volumes decreased by 45%YoY to 1.83mn Mtons on the back 72%/37%/15%YoY drop in FO/HSD/MS sales. Decline in HSD sales was primarily led by slowdown in construction activity, rise in grey market sales and substantially higher price which led to 19%YoY decline in overall industry volumes. FO sales remained depressed on the back of lower demand from IPPs during winter season.

Exhibit:  
**Volumes breakup for 2QFY19 - (000'Mtons)**

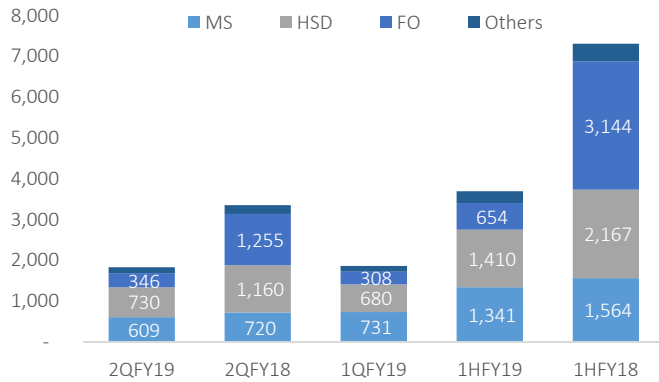
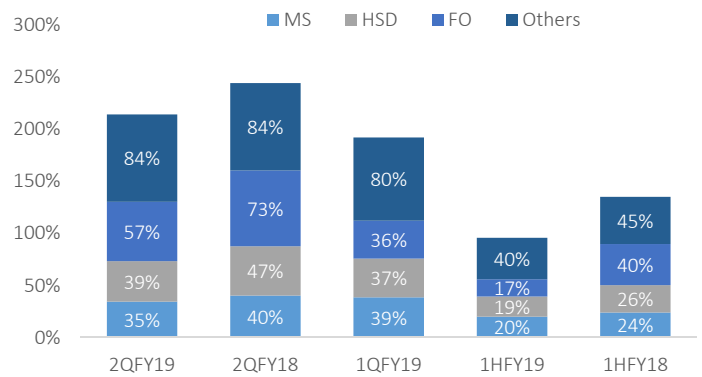


Exhibit:  
**Market share during 2QFY19 product wise - (%)**



Source: IGI Research, Company Financials

**Recommendation**

We have a **'BUY'** call on PSO with our Dec-19 target price of PKR 302.6/share, offering +33% upside from its last close. The company is currently trading at FY19E P/E of 6.9x and offers a decent dividend yield of 5.7%.

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**Time Horizon:** Dec – 2019

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

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