

# Day Break

Tuesday, 24 September 2019

## COMPANY UPDATE

### Pakistan State Oil Company Limited

Oil &amp; Gas Marketing Companies

<b>Recommendation</b>	<b>BUY</b>		
Target Price:	Dec/19	209.7	
Last Closing:	23-Sep-19	152.7	
Upside:		37.4	
Valuation Methodology:	Discounted Cash Flow (DCF)		
Time Horizon:		3M	

### 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)	59.7	381.1	
Exchange	KSE ALL		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	(30.7)	(41.5)	(52.4)
Lo	124.5	124.5	124.5
Hi	192.9	228.5	283.7

### Key Company Financials

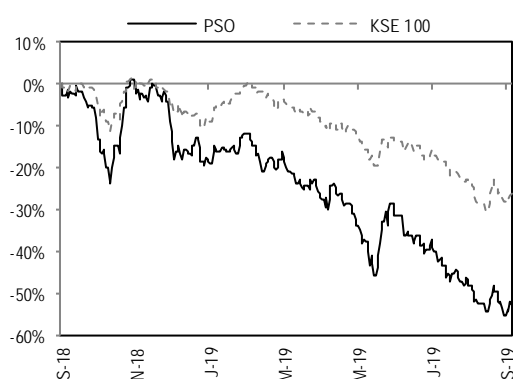
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	1,056.9	1,153.5	847.9	914.3
Net Income	15.5	8.7	11.1	9.0
EPS (PKR)	39.5	22.2	28.3	23.0
DPS (PKR)	15.0	8.0	11.0	9.0
Total Assets	402.6	375.9	352.8	359.3
Total Equity	110.5	116.6	123.4	128.9

### Key Financial Ratios

ROE (%)	14.5	7.6	9.2	7.1
P/E (x)	3.9	6.9	5.4	6.7
P/B (x)	0.5	0.5	0.5	0.5
DY (%)	9.8	5.2	7.2	5.9

### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

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## Oil & Gas Marketing Companies

### PSO: Inventory gains to lift 4QFY19 EPS by +23%YoY to PKR 7.01

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 25th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 2.74bn (EPS PKR 7.01), up by +23%YoY,
- This brings total FY19 earnings to PKR 8.67bn (EPS PKR 22.16) down by 44%YoY compared to PKR 15.46bn (EPS PKR 39.52). We expect the company to announce PKR 3.0/share taking total cash payout to PKR 8.0/share for FY19,
- On quarterly basis, earnings are expected to increase by +63%QoQ during 4QFY19. We expect the rise in earnings on sequential basis on the back of a) inventory gains emanating from HSD as against inventory loss of PKR 0.1bn in 3QFY19, b) lower effective tax rate and, c) +24%QoQ increase in total volumes led by FO/HSD/MS
- We have a 'BUY' call on PSO with our Dec-19 target price of PKR 209.7/share, offering +37% upside from its last close. The company is currently trading at FY19/20E P/E of 6.9/5.4x and offers a dividend yield of 5.2%.

### Earnings to clock in at PKR 7.01/share for 4QFY19, up by +23%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 25th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 2.74bn (EPS PKR 7.01), up by +23%YoY, compared to PKR 2.24bn (EPS PKR 5.72) in the same period last year. We estimate incline in earnings on the back a) hefty inventory gains despite lower volumes and exchange losses. Finance cost is likely to remain elevated owing to higher ST borrowing and rise in interest rates. This brings total FY19 earnings to PKR 8.67bn (EPS PKR 22.16) down by 44%YoY compared to PKR 15.46bn (EPS PKR 39.52). We expect the company to announce PKR 3.0/share taking total cash payout to PKR 8.0/share for FY19.

On quarterly basis, earnings are expected to increase by +63%QoQ during 4QFY19. We expect the rise in earnings on sequential basis on the back of a) inventory gains emanating from HSD as against inventory loss of PKR 0.1bn in 3QFY19, b) lower effective tax rate and, c) +24%QoQ increase in total volumes led by FO/HSD/MS.

Exhibit:

### PSO Financial Highlights

PKRmn	4QFY19E	4QFY18	YoY	FY19E	FY18	YoY
Net Sales	334,945	312,261	7%	1,153,453	1,056,901	9%
Gross Profit	11,210	10,742	4%	35,094	39,636	-11%
Other Income	1,479	2,416	-39%	5,071	7,497	-32%
EBIT	8,526	8,035	6%	25,912	31,870	-19%
Finance Cost	3,327	1,437	132%	10,102	5,123	97%
Profit Before Taxation	5,173	6,745	-23%	15,867	27,160	-42%
Taxation	2,431	4,491	-46%	7,198	11,699	-38%
Profit After Taxation	2,742	2,237	23%	8,668	15,461	-44%
EPS (PKR)	7.01	5.72		22.16	39.52	
DPS (PKR)	3.00	5.00		8.00	15.00	

Source: IGI Research, Company Financials

No of Shares: 391.23mn

### Recommendation

We have a 'BUY' call on PSO with our Dec-19 target price of PKR 209.7/share, offering +37% upside from its last close. The company is currently trading at FY19/20E P/E of 6.9/5.4x and offers a dividend yield of 5.2%.

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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 – 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)

**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.

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