

Oil Marketing Companies

PSO: Much Awaited LNG SPA Signed

- According to the PSX filing, PSO has signed 'Sale Purchase Agreement' (SPA) with Qatar Liquefied Gas Company (QG2) in Doha today.
- As quoted in newspapers, the \$16bn contract of LNG supply from Qatar Liquefied Gas Company is for a period of 15-years ending in 2031. The price would be revised after a period of 10-years.
- The price was initially set at 13.9% of 3-month average Brent price, which has been revised down to 13.37%.
- Under the terms of the agreement PSO is expected to import 1.5mnTon of LNG in the first year and increasing it to 3.5mnTon from second year onwards.
- We expect annualized earnings impact of PKR 2.97/share and PKR 6.92/share based on LNG quantity of 1.5mnTon and 3.5mnTon with PSO's margin fixed at 1.82% of the Delivery Ex-shipment Price (DES).
- PSO is currently pursuing 4% margin on LNG which was initially rejected by OGRA, but is under consideration at the moment. Once implemented and granted 4% margin on LNG, we expect annualized earnings impact of PKR 6.52/share on PSO's earnings.

Recommendation

We believe LNG should provide stability to some extent in earnings amid falling oil prices and shrinking profit contribution from FO. PSO is currently trading at P/E and P/B of 7.81x and 1.01x. With our Dec-16 TP of PKR 489/share, we maintain our **'BUY'** call on the scrip offering a +44% upside from it last close.

Analyst

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Analyst Certification

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| Recommendation | Rating System |
|----------------|--|
| Buy | If return on aforementioned security(ies) is more than 10%, from its last closing price(s) |
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| Sell | If return on aforementioned security(ies) is more than -10%, from its last closing price(s) |

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Discounted Cash Flow (DCF)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate

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