

Flash Note

Monday, 23 October 2017

Oil & Gas - Marketing Companies

PSO: Earnings up by +15%YoY during 1QFY18, likely due to lower short term borrowing and higher LPS income

- Pakistan State Oil Company Limited (PSO) announced financial results for 1QFY18 with earnings clocking in at PKR 5.03bn (Basic EPS PKR 18.51) as compared to PKR 10.27bn (EPS PKR 16.11) in the same period last year.
- Revenues increased by +34%YoY to PKR 259bn on the back of a) +29%/+32%YoY rise in MS/HSD volumes, b) +20% increase in FO prices resulting in higher profit contribution from FO and, c) increase in LNG and lubricant sales.
- Gross profit declined by 5%YoY to PKR 9.19bn during 1QFY18 likely owing to higher inventory losses and discounts offered.
- Operating costs plummeted by 8%YoY to PKR 3.39bn during 1QFY18 as compared to PKR 3.68bn in the corresponding period last year likely owing to lower sales promotion expense and better cost efficiency.
- Other income increased by +16%YoY to PKR 2.21bn in 1QFY18 as compared PKR 1.91bn in the same period last year likely owing to Late Payment Surcharge (LPS) income amid rising receivables. To recall, the management stated that the company's outstanding LPS amount accumulated due to non-payment from customers and it is likely the company recovered some of the outstanding amount during 1QFY18.
- Finance costs declined substantially by 41%YoY to PKR 0.76bn during 1QFY18 likely on the back of reduced short term borrowing as the company paid off its short term debt through proceeds from maturity of PIBs in Jul-17.
- Effective tax rate stood at 32.2% during 1QFY18 compared to 35.5% in the same period last year.

Recommendation

We maintain a **'BUY'** call on PSO with Jun-18 TP of PKR 445/share offering an upside of +24% from its last close. The company is currently trading at FY18E P/E of 6.5x and dividend yield of 5.6%.

Exhibit:

PSO Financial Highlights

PKRmn	30-Sep-17	30-Sep-16	YoY	30-Jun-17	QoQ
Net Sales	258,645	193,512	34%	248,638	4%
Gross Profit	9,190	9,705	-5%	10,075	-9%
Operating Costs	3,385	3,680	-8%	3,612	-6%
Other Op. Income	2,213	1,909	16%	2,726	-19%
EBIT	8,326	7,935	5%	9,189	-9%
Finance Cost	756	1,279	-41%	1,592	-53%
Profit Before Taxation	7,420	6,786	9%	7,670	-3%
Taxation	2,390	2,410	-1%	3,601	-34%
Profit After Taxation	5,029	4,376	15%	4,069	24%
EPS (PKR)	18.51	16.11		14.98	
EPS Diluted (PKR)	15.43	13.42		12.48	
DPS (PKR)	-	-		15.00	

Source: IGI Research, Company Financials, PSX

Shares mn: 326.02 mn

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Time Horizon: Dec - 2017

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

DCF (Discounted Cash Flow)

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