

Flash Note

Friday, 29 April 2016

Oil Marketing Companies

PSO: Heavy Inventory Loss Takes Toll on Earnings in 3QFY16

- Pakistan State Oil (PSO) posted a loss of PKR 2.1bn (LPS PKR 7.85) in 3QFY16 as compared to a loss of PKR 1.0bn (LPS PKR 3.83) in the same period last year, which in our view is likely due to heavy inventory losses on HSD due to higher inventory levels and significant drop in ex-refinery prices. Cumulative earnings for 9MFY16 stand at PKR 4.6bn (EPS PKR 16.91), depicting a growth of +42%YoY.
- Revenues plunged by 14%YoY to PKR 187bn in 3QFY16 primarily owing to drop in POL prices.
- Company posted a gross loss of PKR 0.5bn in 3QFY16 as compared to a gross profit of PKR 1.6bn in the same period last year as a result of heavy inventory loss, we believe.
- Other income nosedived by 37%YoY to PKR 1.6bn in 3QFY16 as compared to PKR 2.6bn in the corresponding period last year, which was compensated by 48%YoY dip in finance cost to PKR 1.4bn (PKR 2.7bn in 3QFY15).
- Furthermore, Company booked in a tax income of PKR 2.1bn in 3QFY16 as compared to a tax expense of PKR 0.7bn in the same period last year (Deferred tax asset of PKR 9.2bn as of Dec-15).

Recommendation

We currently have a “**BUY**” stance on PSO with Dec-16 TP of PKR 454/share, offering +27% capital upside and 3.9% dividend yield. However, we will revisit our investment case and update our FY16 earnings once company's financial reports are made available.

Exhibit: Financial Highlights

PKRmn	3QFY16E	3QFY15	YoY	9MFY16	9MFY15	YoY
Gross Sales	187,378	219,125	-14%	650,748	823,695	-21%
Net Sales	134,622	173,930	-23%	488,587	682,217	-28%
Gross Profit	(520)	1,644	NM	13,641	14,152	-4%
Operating Expenses	3,179	3,111	2%	9,436	10,895	-13%
Other operating Income	1,624	2,590	-37%	6,928	9,312	-26%
EBIT	(2,076)	1,123	NM	11,133	12,569	-11%
Finance Cost	1,414	2,741	-48%	5,015	8,683	-42%
Profit Before Taxation	(3,265)	(1,640)	N/M	6,731	3,888	73%
Profit After Taxation	(2,132)	(1,041)	N/M	4,594	3,242	42%
EPS	(7.85)	(3.83)		16.91	11.94	
DPS	-	6.00		5.00	6.00	

Source: IGI Research and Company Financials

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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)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price
- Changes in Circular Debt Quantum

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