

# Flash Note

Wednesday, 30 October 2019

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Securities

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## Oil & Gas - Marketing Companies

### Pakistan State Oil Company Limited (PSO)

#### Lower inventory gains and higher finance cost drags 1QFY20 EPS to PKR 7.52 despite increase in total volumes

- Pakistan State Oil Company Limited (PSO) announced financial results for 1QFY20 with un-consolidated earnings clocking in at PKR 3.53bn (EPS: PKR 7.52) down by 16% YoY compared to PKR 4.18bn (EPS: PKR 8.91) in the same period last year. On sequential basis, earnings are down by 24% QoQ.
- We attribute this decline in earnings during 1QFY20 to a) lower inventory gains in our view estimated at PKR 1.2bn compared to PKR 1.8bn in the same period last year and, b) higher finance cost owing to higher ST borrowing and rise in interest rates.
- Net Revenue increased by +18% YoY to PKR 329.78bn during 1QFY20, likely on the back of increase in domestic MS, HSD and FO prices due to surge in international oil prices and +10% YoY rise in total volumes led by +27%/+9%/+1% YoY growth in FO/MS/HSD sales.
- Gross profit dropped by 2% YoY to PKR 10.71bn during 1QFY20 as against PKR 10.91bn in similar period last year likely owing to lower inventory gains despite rise in total volumes thus leading to 65bpsYoY decline in gross margins to 3.25%.
- Operating charges plummeted by 63% YoY to PKR 0.29bn during 1QFY20 as against PKR 0.79bn in similar period last year likely in the absence of exchange losses.
- Other income leaped up by +63% YoY to PKR 1.58bn during 1QFY20 compared to PKR 0.97bn in the corresponding period last year likely owing to higher penal interest income booked during the quarter.
- Finance cost surged by +45% YoY to PKR 2.64bn during 1QFY20 against PKR 1.83bn in the same period last year likely owing to elevated mark-up cost on short term borrowings. This is likely due to substantial rise in circular debt with PSO's short term borrowings crossing PKR 100bn.
- Effective tax rate remained flat at 43.2% during 1QFY20 compared to 36.6% (4QFY19: 31.3%) reported in the corresponding period last year.

Exhibit:

#### PSO Financial Highlights

PKRmn	1QFY20	1QFY19	YoY	4QFY19	QoQ
Net Sales	329,783	280,028	18%	335,790	-2%
Gross Profit	10,706	10,906	-2%	12,133	-12%
S&D Expense	2,565	2,068	24%	2,927	-12%
Admin Expense	725	721	1%	1,217	-40%
Other Charges	289	792	-63%	2,880	-90%
Other Op. Income	1,584	970	63%	3,713	-57%
EBIT	8,712	8,296	5%	8,823	-1%
Finance Cost	2,640	1,826	45%	2,163	22%
Profit Before Taxation	6,216	6,590	-6%	6,784	-8%
Taxation	2,688	2,409	12%	2,123	27%
Profit After Taxation	3,528	4,181	-16%	4,660	-24%
<b>EPS (PKR) @ 469.47mn shares</b>	<b>7.52</b>	<b>8.91</b>		<b>9.93</b>	
DPS (PKR)	-	-		-	

Source: IGI Research, Company Financials

No of Shares: 469.47mn

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IGI Finex Securities Limited

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Research Identity Number: BRP009

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