

Flash Note

Tuesday, 08 August 2017

Oil & Gas - Marketing Companies

PSO: Earnings up by +77%YoY in FY17 to PKR 67.08/share, Bonus share of 20%

- Pakistan State Oil Company Limited (PSO) announced financial results for FY17 with earnings clocking in at PKR 18.23bn (EPS PKR 67.08) as compared to PKR 10.27bn (EPS PKR 37.81) in the same period last year. On quarterly basis, earnings declined by 28%YoY to PKR 4.07bn (EPS PKR 14.98) compared to PKR 5.68bn (EPS PKR 20.90) in the corresponding period last year.
- The company announced cash dividend of PKR 15.0/share along with the result taking total FY17 cash dividend to PKR 25.0/share. PSO also announced a surprise bonus share of 20%.
- For 4QFY17, revenues increased +31%YoY to PKR 249bn on the back of a) +3%/+1%YoY rise in MS/FO volumes, b) +47% increase in FO prices resulting in higher profit contribution from FO and, c) +13%/+12%YoY incline in MS/HSD prices.
- Gross profit increased by +10%YoY to PKR 10.16bn during 4QFY17 likely owing to higher margins on MS and HSD and increase in profit contribution from FO owing to increase in price.
- Operating costs increased by +9% to PKR 3.69bn during 4QFY17 as compared to PKR 3.39bn in the corresponding period last year.
- Other income declined by 54%YoY to PKR 2.73bn in 4QFY17 as compared PKR 5.87bn in the same period last year likely owing to lower penal interest income earned on receivables.
- Effective tax rate stood at 46.9% during 4QFY17 compared to 40.6% in the same period last year, taking effective tax rate for FY17 to 37.9% (FY16: 36.9%).

Recommendation

We maintain a **'BUY'** call on PSO with Dec-17 TP of PKR 519/share offering an upside of +20% from its last close. The company is currently trading at FY18E P/E of 6.0x and dividend yield of 5.1%.

Exhibit:

Financial Highlights

PKRmn	4QFY17	4QFY16	YoY	3QFY17	QoQ	FY17	FY16	YoY
Net Sales	248,649	189,380	31%	218,160	14%	878,147	677,967	30%
Gross Profit	10,158	9,222	10%	9,232	10%	37,199	22,863	63%
Operating Costs	3,694	3,399	9%	2,904	27%	13,282	12,835	3%
Other Op. Income	2,726	5,870	-54%	1,703	60%	10,745	12,798	-16%
EBIT	9,189	11,694	-21%	8,031	14%	34,662	22,827	52%
Finance Cost	1,592	2,135	-25%	1,485	7%	5,923	7,150	-17%
Profit Before Taxation	7,670	9,558	-20%	6,716	14%	29,347	16,289	80%
Taxation	3,601	1,612	123%	2,574	40%	11,121	6,016	85%
Profit After Taxation	4,069	5,680	-28%	4,141	-2%	18,226	10,273	77%
EPS (PKR)	14.98	20.90		15.24		67.08	37.81	
DPS (PKR)	15.00	7.50		10.00		20.00	12.50	
Bonus	20%	-		-		-	-	

Source: IGI Research, Company Financials

Shares mn: 271.69 mn

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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)
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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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, 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.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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