

Day Break

Friday, 21 April 2017

COMPANY UPDATE

PAKISTAN STATE OIL COMPANY LIMITED
OIL & GAS MARKETING COMPANIES

Recommendation	BUY
Target Price	497.0
Last Closing	20-Apr-17
Upside	13.3

Market Data

Bloomberg Tkr.	PSO PA
Shares (mn)	271.7
Free Float Shares (mn)	122.3
Free Float Shares (%)	45.0%
Market Cap (PKRbn USDmn)	119.2 1,136.8
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(3.7) 2.2 16.4
Lo	411.8 388.9 351.6
Hi	486.1 486.1 486.1

Key Company Financials

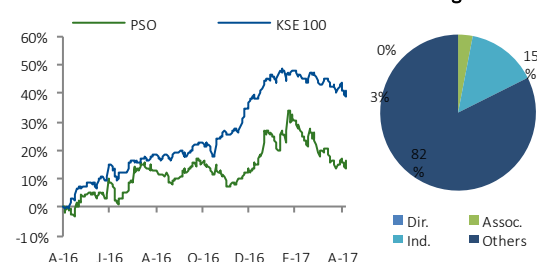
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	678.0	1,168.7	1,179.1	1,318.7
Net Income	10.27	18.3	18.8	21.6
EPS (PKR)	37.8	67.3	69.2	79.6
DPS (PKR)	12.5	16.0	21.0	24.0
Total Assets	342.3	367.2	395.2	403.0
Total Equity	91.6	105.5	118.6	133.7

Key Financial Ratios

ROE (%)	11.2	17.3	15.9	16.2
P/E (x)	11.6	6.5	6.3	5.5
P/B (x)	1.3	1.1	1.0	0.9
DY (%)	2.8	3.6	4.8	5.5

Relative Price Performance & Shareholding



About the Company

Pakistan State Oil was incorporated in Pakistan in 1976. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

Source: Bloomberg, KSE 100 & IGI Research

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Oil & Gas – Marketing Companies

PSO: Higher Penal Income on Receivables and Inventory Gain to Drive Earnings in 3QFY17

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 22nd Apr-17 to announce financial result for 3QFY17. We expect the company to report earnings of PKR 3.90bn (EPS PKR 14.36) in 3QFY17 as compared to a loss of PKR 2.13bn (LPS PKR 7.85).
- We attribute this to a) +10%/+2%YoY increase in MS/HSD volumes, b) +33%YoY higher other income owing to higher penal interest income on receivables, and c) possible inventory gains of PKR 586mn.
- We maintain our "BUY" call on PSO with our Dec-17 target price of PKR 497/share, offering +13% upside from its last closing. The company is currently trading at a FY17E P/E of 6.5x and offers a dividend yield of 4%.

Earnings to clock in at PKR 14.36/share in 3QFY17, Dividend PKR 6.0/share

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 22nd Apr-17 to announce financial result for 3QFY17. We expect the company to report earnings of PKR 3.90bn (EPS PKR 14.36) in 3QFY17 as compared to a loss of PKR 2.13bn (LPS PKR 7.85) in the same period last year, taking 9MFY17 earning to PKR 13.92bn (EPS PKR 51.21), up by +3.0xYoY. The company is expected to announce cash dividend of PKR 6.0/share along with the result.

We attribute this to a) +10%/+2%YoY increase in MS/HSD volumes, b) +33%YoY higher other income owing to higher penal interest income on receivables, and c) possible inventory gains of PKR 586mn. However, earnings growth is expected to dilute on the back of 5%YoY drop in FO volumes. On Quarterly basis, earnings are expected to decline by 31%QoQ likely on the back of a) 51%QoQ drop in other income and b) 16%QoQ drop in total volumes led by 8%/34%QoQ decline in FO/HSD sales.

Volumes posted muted growth of +1%YoY in 3QFY17

Total sales for PSO inched up by +1%YoY to 3.09mn Ton during 3QFY17 as compared to 3.06mn Ton in the same period last year, owing to 5%YoY drop in FO volumes which was covered up by +10%/+2%YoY rise in MS/HSD sales. However, on quarterly basis total sales witnessed a decline of 16%QoQ led by 8%/34%QoQ decline in FO/HSD sales.

Receivables piling up to PKR 197.6bn as at Dec-16

PSO's receivables have piled up to PKR 197.6bn as at Dec-16 as compared to PKR 178.2bn as at Jun-16 (up by PKR 19.4bn). As a result the company booked in PKR 1.4bn penal interest income during 2QFY17 and curtailed dividend payout. However, according to news report Government decided to disburse PKR 20bn in Feb-17 to PSO to avoid default which should lower receivables amount for PSO and reduce other income on quarterly basis.

Exhibit: PSO volumes (000'MT)

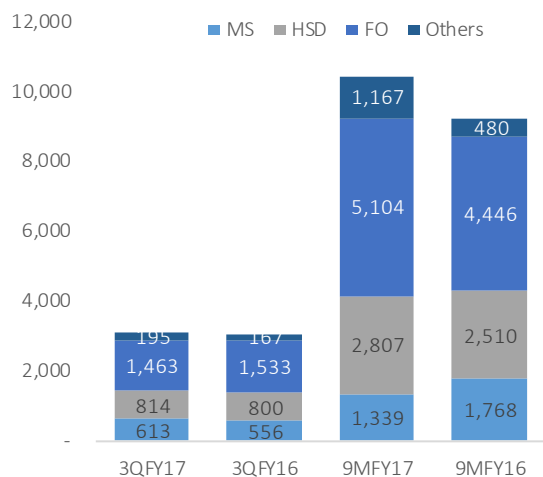


Exhibit:

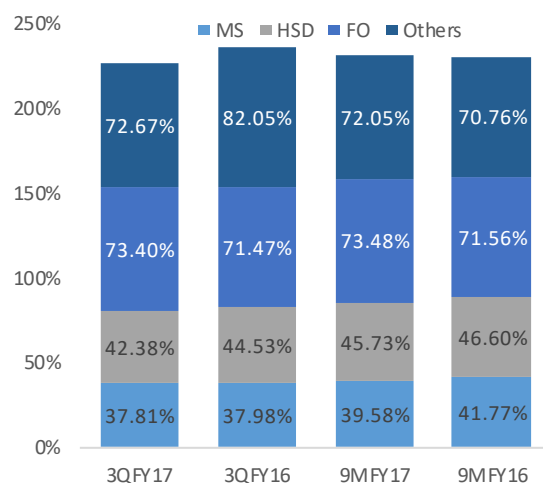
Financial Highlights

PKRmn	3QFY17E	3QFY16	YoY	9MFY17E	9MFY16	YoY
Gross Sales	264,983	187,378	41%	782,762	650,748	20%
Net Sales	222,541	134,622	65%	633,889	488,587	30%
Gross Profit	8,162	(520)	N/M	26,053	13,641	91%
Operating Costs	2,874	3,179	-10%	9,640	9,436	2%
Other Income	2,162	1,624	33%	8,478	6,928	22%
EBIT	7,450	(2,076)	N/M	24,892	11,133	124%
Finance Cost	1,498	1,414	6%	4,344	5,015	-13%
PBT	6,136	(3,265)	N/M	21,097	6,731	213%
PAT	4,234	(2,132)	N/M	14,249	4,594	210%
EPS (PKR)	15.58	(7.85)		52.44	16.91	
DPS (PKR)	6.00	-		6.00	5.00	

Source: IGI Research and Company Financials

No of Shares: 271.69 mn

Exhibit: PSO - MS, HSD, FO market share



Outlook

The company's management foresees lubricant sales to jump up by +20%YoY in FY17 to 35kton (high margin product having margin of nearly PKR 100,000/ton). The company further expects to increase its retail outlets to cater rising demand and company under performance compared to industry growth. Furthermore, FO profit contribution is expected to increase as prices are up by +15%YoY in FY17TD.

Recommendation

We maintain our "BUY" call on PSO with our Dec-17 target price of PKR 497/share, offering +13% upside from its last closing. The company is currently trading at a FY17E P/E of 6.5x and offers a dividend yield of 4%.

Source: Company Financials, IGI Research

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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)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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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