

## Day Break

Wednesday, 08 February 2017

## COMPANY UPDATE

PAKISTAN STATE OIL COMPANY LIMITED  
OIL & GAS MARKETING COMPANIES

<b>Recommendation</b>	<b>NEUTRAL</b>		
Target Price	497.0		
Last Closing	7-Feb-17	474.0	
Upside	4.9		
<b>Market Data</b>			
Bloomberg Tkr.	PSO PA		
Shares (mn)	271.7		
Free Float Shares (mn)	122.3		
Free Float Shares (%)	45.0%		
Market Cap (PKRbn   USDmn)	128.8	1,229.1	
Exchange	KSE 100		
<b>Price Info.</b>	90D	180D	365D
Abs. Return	18.0	15.3	42.4
Low	388.9	388.9	315.5
High	486.1	486.1	486.1

## Key Company Financials

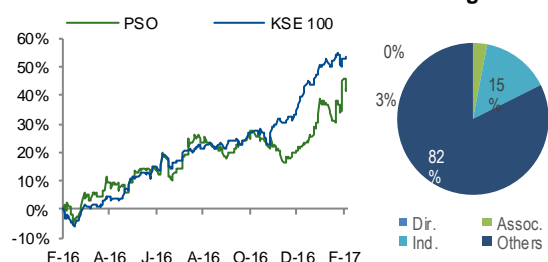
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	678.0	807.1	912.0	1,036.7
Net Income	10.27	16.0	17.2	20.7
EPS (PKR)	37.8	58.7	63.2	76.3
DPS (PKR)	12.5	18.0	19.0	23.0
Total Assets	342.3	359.9	382.1	392.6
Total Equity	91.6	102.6	114.7	129.1

## Key Financial Ratios

ROE (%)	11.2	15.5	15.0	16.1
P/E (x)	12.5	8.1	7.5	6.2
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	2.6	3.8	4.0	4.9

## Relative Price Performance &amp; 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 &amp; IGI Research

## Abdullah Farhan

Research Analyst

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

## Oil &amp; Gas – Marketing Companies

## PSO: Analyst Briefing Takeaway

- PSO reported earnings of PKR 5.6bn (EPS PKR 20.75) during 2QFY17, up by +62%YoY as compared to PKR 3.5bn (EPS PKR 12.78) in the same period last year.
- 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.
- We maintain "HOLD" call on PSO with our Dec-17 target price of PKR 497/share offering +5% upside from its last closing. The company is currently trading at a FY17E P/E of 8.1x and offers a healthy dividend yield of 4%.

## Earnings clocked in at PKR 20.75/share in 2QFY17, up by +62%YoY

Pakistan State Oil Company Limited (PSO) reported earnings of PKR 5.6bn (EPS PKR 20.75) during 2QFY17, up by +62%YoY as compared to PKR 3.5bn (EPS PKR 12.78) in the same period last year. This substantial growth in earnings is attributable to a) +72%YoY rise in other income owing to PKR 1.4bn late payment surcharge (LPS) income, b) total volumes augmenting by +21%YoY led by +32%YoY rise in HSD sale, followed by MS and FO posting +17%YoY growth each and, c) higher FO margins led by FO prices increasing by +28%YoY. The company reported an unexpected inventory loss of PKR 1.48bn during 2QFY17, diluting earnings by PKR 3.7/share (after tax EPS impact).

Cumulative earnings for 1HFY17 clocked in at PKR 10bn (EPS PKR 36.86), up by +49%YoY as compared to PKR 6.7bn (EPS PKR 24.76) in the same period last year.

Exhibit:

## Financial Highlights

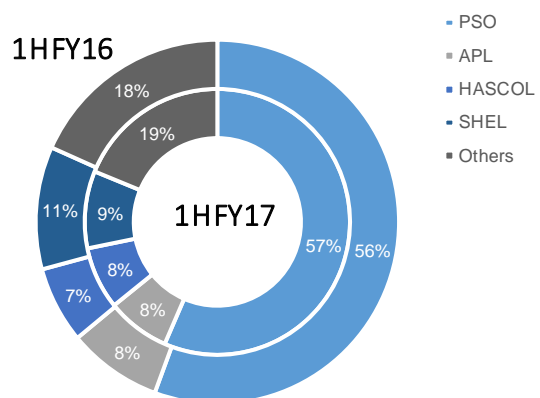
PKR'mn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Gross Sales	276,404	227,094	22%	517,780	463,370	12%
Net Sales	217,836	168,691	29%	411,348	353,965	16%
Gross Profit	8,186	6,616	24%	17,892	14,161	26%
Operating Costs	3,086	2,811	10%	6,684	5,930	13%
Other Income	4,407	2,564	72%	6,316	5,304	19%
EBIT	9,506	6,272	52%	17,441	13,209	32%
Finance Cost	1,567	1,715	-9%	2,846	3,601	-21%
PBT	8,175	4,878	68%	14,961	9,996	50%
PAT	5,639	3,473	62%	10,015	6,726	49%
EPS (PKR)	20.75	12.78		36.86	24.76	
DPS (PKR)	-	5.00		-	5.00	

Source: IGI Research and Company Financials

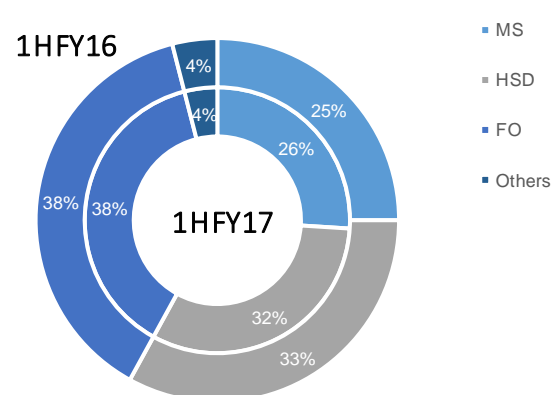
**Exhibit: PSO Receivables Position**

PKR'bn	Feb-17	Dec-16	Jun-16
Power Sector	181	167	147
LNG Receivables	5	4	11
PIA	14	14	12
PD Claims from GoP	10	10	10
<b>Total Receivables</b>	<b>210</b>	<b>195</b>	<b>180</b>

**Exhibit: Total Market share - Company wise (1HFY17)**



**Exhibit: POL Consumption - Product wise (1HFY17)**



**Analyst Briefing – Key highlights include ...**

Key highlights of the analyst briefing held by PSO’s management on 7<sup>th</sup>Feb-17 are as follows:

**... Receivables accumulated to PKR 210bn**

Dividend curtailment during 2QFY17 was primarily owing to liquidity constraints as receivables piled up to PKR 210bn (PKR 180bn as at Jun-16) resulting in higher other income on late payment as LDS. However, the company expects payments to be received soon due to continuous efforts of management. The company is expected to pay dividend in 3QFY17 if payments are received in respect of overdue receivables. The management noted that as a result of lower allocation of tariff differential subsidy in Budget 2017, WAPDA has started to delay PSO’s payment as recoveries for distribution companies still remain key concern.

**... Inventory loss despite price increase in 2QFY17**

The company incurred inventory losses of PKR 1.48bn in 2QFY17 despite price increase (total inventory gain of PKR 66mn for 1HFY17) owing to lower inventory levels for HSD of 42 days (22 working days) as company has to ensure availability of POL products. As a result of low inventory levels of HSD lower gains were realized and losses were incurred on MS and FO.

**... Non-reversal of WWF**

PSO did not book reversal of WWF unlike APL as company’s LTF (Lubricant) plant falls under industrial establishment which does not fall under the SC’s ruling criteria.

**... No further development for shifting LNG business to Pakistan LNG**

The management reported that PSO still has the LNG contract for supply of LNG which is to be shifted to Pakistan LNG. To recall, the contract had to be shifted to Pakistan LNG in Dec-16, but as no further update has been received by the Government the matter has been delayed till Jun-17. Until any further development unveils, the contract remains with PSO.

**... Exclusive contract of HSD supply to SECMC & OGRA ban on outlet expansion**

The company holds exclusive contract for HSD supply to SECMC which falls under CPEC projects which is expected to lift HSD sales for the company. Whereas, the management is in continuous talks with the OGRA to lift the ban imposed by OGRA (restriction in opening new retail outlets).

**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 “**HOLD**” call on PSO with our Dec-17 target price of PKR 497/share offering +5% upside from its last closing. The company is currently trading at a FY17E P/E of 8.1x and offers a healthy dividend yield of 4%.

Source: Company Financials, IGI Research

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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)
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)

**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.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

#### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter, Opp. Radio  
Station, MansehraRoad, Abbottabad  
Phone: (+92-99) 2408243 - 44