

# Day Break

Wednesday, 17 August 2016

## Company Update

### Pakistan State Oil Co. Ltd.

Oil & Gas Marketing Companies

#### Recommendation

|              |       |
|--------------|-------|
| Target Price | N/A   |
| Last Closing | 412.3 |
| Upside       |       |

#### Market Data

|                            |                 |
|----------------------------|-----------------|
| Bloomberg Tkr.             | PSO PA          |
| Shares (mn)                | 271.7           |
| Market Cap (PKRbn   USDmn) | 112.0   1,070.0 |
| Exchange                   | KSE 100         |

#### Price Info.

|             |       |       |       |
|-------------|-------|-------|-------|
|             | 90D   | 180D  | 365D  |
| Abs. Return | 8.1   | 22.5  | 12.5  |
| Low         | 366.9 | 315.5 | 287.0 |
| High        | 420.9 | 420.9 | 420.9 |

#### Key Company Financials

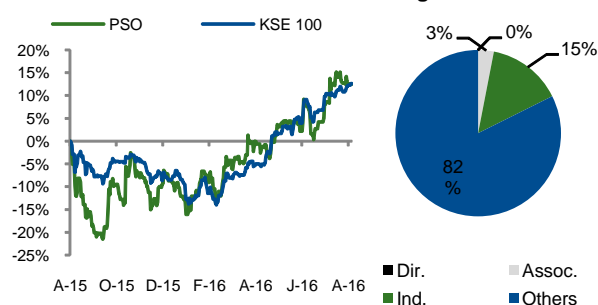
Period End: Jun

| PKRbn         | FY15A | FY16E | FY17F | FY18F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 913.1 | 678.0 | 770.0 | 860.7 |
| Net Income    | 6.9   | 10.3  | 15.4  | 17.3  |
| EPS (PKR)     | 25.5  | 37.8  | 56.8  | 63.6  |
| DPS (PKR)     | 10.0  | 12.5  | 13.0  | 14.0  |
| Total Assets  | 341.3 | 334.0 | 362.1 | 382.3 |
| Total Equity  | 82.3  | 88.2  | 100.7 | 114.4 |

#### Key Financial Ratios

|         |      |      |     |     |
|---------|------|------|-----|-----|
| ROE (%) | 8%   | 12%  | 15% | 15% |
| P/E (x) | 16.2 | 10.9 | 7.3 | 6.5 |
| P/B (x) | 1.4  | 1.3  | 1.1 | 1.0 |
| DY (%)  | 2.4  | 3.0  | 3.2 | 3.4 |

#### 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

#### Analyst

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## Pakistan State Oil

### Analyst Briefing Takeaway

- Pakistan State Oil (PSO) in its analyst briefing held on 16th Aug-16 gave a detailed analysis on FY16 financial result.
- Key highlights of the briefing were a) lower than expected inventory gains to the tune of PKR 670mn as 33 days (58 days in 3QFY16) of inventory was held owing to supply disruption in Middle East, b) higher other income owing to hefty penal interest income on receivables, c) expansion plan to enhance storage capacity and retail outlets, d) no substantial accumulation of receivables post Jan-15 but still has not received payments for the outstanding amount before that period
- Based on overall changed volumetric assumptions as well as enhanced margins, we are currently revising our investment case for PSO.

#### Key Takeaway from Analyst Briefing

Pakistan State Oil (PSO) in its analyst briefing held on 16<sup>th</sup> Aug-16 gave a detailed analysis on FY16 financial result. Key highlights of the briefing were a) lower than expected inventory gains to the tune of PKR 670mn as 33 days (58 days in 3QFY16) of inventory was held owing to supply disruption in Middle East, b) higher other income owing to hefty penal interest income on receivables, c) expansion plan to enhance storage capacity and retail outlets, d) no substantial accumulation of receivables post Jan-15 but still has not received payments for the outstanding amount before that period and, e) no further improvement expected in dividend payout in medium term. Furthermore, Government is likely to shift PSO's LNG contract to Pakistan LNG by Dec-16.

#### FY16 Earnings depict +48%YoY growth to PKR 37.81/share

PSO posted earnings growth of +54%YoY in 4QFY16 to PKR 5.7bn (EPS PKR 20.90) taking cumulative FY16 earnings to PKR 10.3bn (EPS PKR 37.81) up by +48%YoY as compared to PKR 6.9bn (EPS PKR 25.53) in the same period last year. This growth in earnings is attributable to a) inventory gains to the tune of PKR 670mn, b) +25%YoY jump in other income to PKR 5.8bn owing to hefty penal interest income and, c) better FO margins combined with 7%YoY growth in volumes. Along with the result, the company announced cash dividend of PKR 7.5/share taking total dividend for FY16 to PKR 12.5/share.

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### Shift of LNG Contract to Pakistan LNG

The company's management mentioned that Government in its letter to the company expressed its intention to shift the LNG contract of PSO to a newly formed company, Pakistan LNG by the end of Dec-16. As per the PSO management, there hasn't been any update on the said company. Nevertheless, even with transfer of LNG contract to Pakistan LNG; PSO's earnings are expected to contract by mere 6%-7%, which will likely be mitigated through recent recovery in FO prices combined with improved FO volumes.

### Regaining Market share in white oil products to remain key focus of management

PSO's management expressed its plans to regain its market share in MS and HSD through expansion in retail outlets and enhancing its storage capacity for efficient supply chain management. The company incurred capital expenditure of PKR 1.3bn in FY16 and expects to incur further heavy capital expenditure in FY17 for infrastructure development. The company plans to continue with its strategy of opening 100 retail outlets per annum.

### No further accumulation in receivables remains a key upside

According to the management, the company has received payments of PKR 293bn against PKR 308bn receivables since Jan-15, while there has not been any payments received for the amount accumulated before that period resulting in net receivables of PKR 185bn at the end of FY16. Once these outstanding payments are received, the management eyes higher dividend payout.

### No clarity on plans post maturity of PIBs in FY17

PSO holds PIBs worth PKR 45bn which were issued by Government of Pakistan in respect of company's circular debt payment back in Jun-13. The PIBs are set to mature in Jun-17 after which the management is considering the option of reinvesting in Government securities at a lower interest rate (interest rate of 11.5% on current PIBs) or paying part of its short term borrowings. Reinvestment in Government Securities remains high possibility in our view, which would erode FY18 earnings by PKR 5.66/share assuming lower mark-up rate of 6.5%. The management has denied the possibility of early redemption of PIBs as it is not feasible for the company.

#### Exhibit: Financial Highlights

| PKRmn           | 4QFY16  | 4QFY15  | YoY  | FY16    | FY15      | YoY  |
|-----------------|---------|---------|------|---------|-----------|------|
| Gross Sales     | 255,456 | 290,716 | -12% | 906,204 | 1,114,411 | -19% |
| Net Sales       | 189,380 | 230,877 | -18% | 677,967 | 913,094   | -26% |
| Gross Profit    | 9,222   | 9,427   | -2%  | 22,863  | 23,579    | -3%  |
| Operating Costs | 6,297   | 3,101   | 103% | 12,835  | 14,185    | -10% |
| Other Income    | 5,870   | 4,712   | 25%  | 12,798  | 13,935    | -8%  |
| EBIT            | 11,694  | 10,102  | 16%  | 22,826  | 22,671    | 1%   |
| Finance Cost    | 2,135   | 2,334   | -9%  | 7,150   | 11,017    | -35% |
| PBT             | 9,558   | 8,146   | 17%  | 16,289  | 12,034    | 35%  |
| PAT             | 5,679   | 3,694   | 54%  | 10,273  | 6,936     | 48%  |
| EPS (PKR)       | 20.90   | 13.59   |      | 37.81   | 25.53     |      |
| DPS (PKR)       | 7.50    | 4.00    |      | 12.50   | 10.00     |      |

Source: IGI Research and Company Financials

### Recommendation

Based on overall changed volumetric assumptions as well as enhanced margins, we are currently revising our investment case for PSO.

### Analyst Certification

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

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