

Day Break

Wednesday, 03 August 2016

IGI

Securities

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Company Update

Pakistan State Oil Co. Ltd.

Oil & Gas Marketing Companies

Recommendation

Target Price	N/A
Last Closing	417.1
Upside	

Market Data

Bloomberg Tkr.	PSO PA
Shares (mn)	271.7
Market Cap (PKRbn USDmn)	113.3 1,080.8
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	18.0	29.5	12.5
Low	351.6	315.5	287.0
High	420.8	420.8	420.8

Key Company Financials

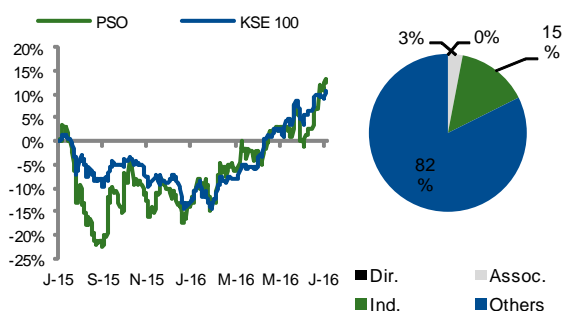
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	913.1	632.8	770.0	860.7
Net Income	6.9	10.5	15.4	17.3
EPS (PKR)	25.5	38.6	56.8	63.6
DPS (PKR)	10.0	10.0	11.0	13.0
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)	16.3	10.8	7.3	6.6
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	2.4	2.4	2.6	3.1

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

Inventory Gains and Volumes to Drive Earnings Growth in 4QFY16

- Pakistan State Oil's (PSO) board meeting is scheduled on 6th Aug-16, where we expect the company to post earnings of PKR 6.4bn (EPS PKR 23.72) up by +74%YoY in 4QFY16 as compared to PKR 3.7bn (EPS PKR 13.59) in the same period last year.
- PSO posted a +6%YoY rise in volumes to 3.9mnTon owing to +6%YoY/+7%YoY surge in HSD/FO sales in 4QFY16. Total sales for FY16 stand at 13.5mnTon, depicting a +7%YoY jump as compared to 12.6mnTon in the same period last year.
- Based on overall changed volumetric assumptions as well as enhanced margins, we are currently revising our investment case for PSO.

Earnings to Clock in at PKR 23.72/share in 4QFY16

Pakistan State Oil's (PSO) board meeting is scheduled on 6th Aug-16, where we expect the company to post earnings of PKR 6.4bn (EPS PKR 23.72) up by +74%YoY in 4QFY16 as compared to PKR 3.7bn (EPS PKR 13.59) in the same period last year. This growth in earnings is attributable to a) +6%YoY/+7%YoY growth in HSD/FO volumes, b) inventory gain to the tune of PKR 2.4bn (PKR 8.9/share before tax) primarily led by substantial gains on HSD and, c) higher margin of 2.5% on LNG to contribute PKR 1.6/share to earnings. We expect PSO to book in super tax charge of PKR 564mn (PKR 2.08/share) in 4QFY16.

Profitability in FY16 is estimated to grow by +51%YoY to PKR 10.5bn (EPS PKR 38.64). Along with the result, we expect the company to pay cash dividend of PKR 5.0/share in 4QFY16, taking total dividends for FY16 to PKR 10/share.

Exhibit: PSO Volumes

000'tons	4QFY16	4QFY15	YoY	FY16	FY15	YoY
MS	654	659	-1%	2,888	2,221	30%
HSD	1,223	1,155	6%	3,950	3,702	7%
FO	1,839	1,726	7%	6,041	6,106	-1%
Total	3,877	3,669	6%	13,465	12,563	7%

Source: IGI Research and Company Financials

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Volumes Depict +6%YoY Growth as FO Sales climb up in 4QFY16

PSO posted a +6%YoY rise in volumes to 3.9mnTon owing to +6%YoY/+7%YoY surge in HSD/FO sales in 4QFY16. Total sales for FY16 stand at 13.5mnTon, depicting a +7%YoY jump as compared to 12.6mnTon in the same period last year. MS/HSD volumes depicted +30%YoY/+7%YoY increase in FY16.

Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Gross Sales	245,880	290,716	-15%	896,628	1,114,411	-20%
Net Sales	144,187	230,877	-38%	632,774	913,094	-31%
Gross Profit	11,417	9,427	21%	25,058	23,579	6%
S & D Exp	2,676	2,949	-9%	9,214	9,019	2%
Admin Exp	597	153	291%	2,347	2,401	-2%
Other Exp	383	936	-59%	1,531	3,513	-56%
Other Income	4,097	4,712	-13%	11,025	14,024	-21%
EBIT	11,858	10,102	17%	22,991	22,671	1%
Finance Cost	1,777	2,334	-24%	6,793	11,017	-38%
PBT	10,271	8,146	26%	17,002	12,034	41%
PAT	6,444	3,694	74%	10,497	6,936	51%
EPS (PKR)	23.72	13.59		38.64	25.53	
DPS (PKR)	5.00	4.00		10.00	10.00	

Source: IGI Research and Company Financials

Outlook

Going forward, we expect better performance on the back of a) healthy demand for MS owing to lower prices, b) Government's 3-yr plan to reduce the quantum of circular debt to improve liquidity, c) HSD volumes to remain upbeat as commercial transportation gains further momentum and, d) LNG imports with increased margin to provide further boost in earnings. On the downside, any drop in FO prices would lead to lower FO contribution in the overall profitability, but we expect better volumes to mitigate this risk to a certain extent, due to cheaper cost of power production on FO as compared to gas.

Recommendation

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

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price
- Changes in Circular Debt Quantum

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