

Day Break

Thursday, 27 August 2020

COMPANY UPDATE

Pakistan State Oil Company Limited

Oil & Gas Marketing Companies

Recommendation	BUY
Target Price: Dec-20	248.5
Last Closing: 26-Aug-20	191.4
Upside (%):	29.8
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	4M

Market Data

Bloomberg Tkr.	PSO PA
Shares (mn)	469.5
Free Float Shares (mn)	211.3
Free Float Shares (%)	45.0%
Market Cap (PKRbn USDmn)	89.9 582.3
Exchange	KSE 100
Price Info.	90D 06M 12M
Abs. Return	19.2 13.5 43.6
Lo	143.9 114.0 114.0
Hi	194.0 194.0 216.9

Key Company Financials

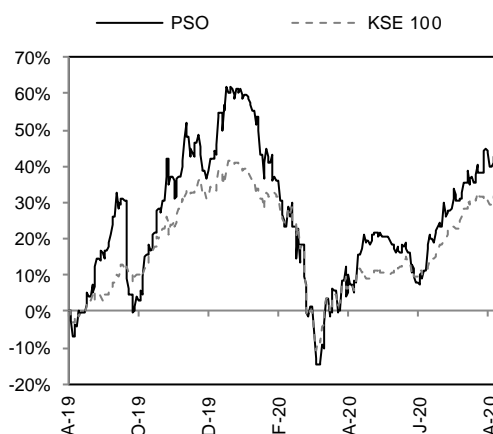
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	1,154.3	1,105.3	768.2	908.9
Net Income	10.6	(2.7)	9.2	13.8
EPS (PKR)	22.5	(5.7)	19.6	29.3
DPS (PKR)	10.0	-	7.0	11.0
Total Assets	417.1	389.5	372.3	363.2
Total Equity	119.2	123.7	129.5	138.2

Key Financial Ratios

ROE (%)	9.2	(2.2)	7.3	10.3
P/E (x)	8.5	-	33.6	9.8
P/B (x)	0.8	0.7	0.7	0.7
DY (%)	5.2	-	3.7	5.7

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Marketing Companies

PSO: Lower sales and inventory losses alongwith exchange losses to bring 4QFY20 LPS to PKR 12.11

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 28th Aug-20 to announce financial result for 4QFY20, where we expect the company to post loss of PKR 5.69bn (LPS PKR 12.11) compared to profitability of PKR 4.66bn (EPS PKR 9.93).
- On quarterly basis, losses are expected to extend by 66%QoQ on the back of higher inventory and exchange losses along with despite 40%QoQ rise in total volumes and slight drop in finance cost.
- We recommend a 'BUY' stance on PSO with our Dec-20 target price of PKR 248.5/share offering 30% upside from last close. The company is currently trading at FY21 P/E of 9.8x.

PSO 4q FY20 earning preview: Expecting a loss of PKR 12.11/share

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 28th Aug-20 to announce financial result for 4QFY20, where we expect the company to post loss of PKR 5.69bn (LPS PKR 12.11) compared to profitability of PKR 4.66bn (EPS PKR 9.93) in the same period last year.

We estimate decline in earnings on the back a) hefty inventory losses due to substantial decline in oil prices, b) significant exchange losses amid lower FE-25 borrowings and lower offtake from local refineries and, c) 17% drop in total sales led by FO. This brings total loss for FY20E to PKR 2.68bn (LPS PKR 5.70) compared to earnings of PKR 10.59bn (EPS PKR 22.55) in the same period last year.

No cash dividend, possibility of bonus issue

We don't expect PSO to pay-out any cash dividend for 4QFY20 leading to nil cash pay-out in FY20. However, we do not rule out a possibility of a 10-20% bonus issue.

Exhibit: PSO Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Net Sales	217,948	335,790	-35%	1,105,279	1,154,298	-4%
Gross Profit	(887)	12,133	n/m	19,254	36,017	-47%
S&D Expense	2,761	2,927	-6%	10,839	9,534	14%
Admin Expense	935	1,217	-23%	3,430	3,494	-2%
Other Charges	1,249	2,880	-57%	1,435	4,086	-65%
Other Op. Income	2,899	3,713	-22%	11,181	7,305	53%
EBIT	(2,934)	8,823	n/m	14,732	26,209	-44%
Finance Cost	3,541	2,163	64%	14,048	8,939	57%
PBT	(6,318)	6,784	n/m	1,297	17,477	-93%
Taxation	(632)	2,123	n/m	3,974	6,890	-42%
PAT	(5,686)	4,660	n/m	(2,678)	10,587	n/m
EPS (PKR)	(12.11)	9.93		(5.70)	22.55	
DPS (PKR)	-	-		-	-	

Source: IGI Research, Company Financials

No of Shares: 469.47mn

Higher exchange and inventory losses to extend losses on quarterly basis

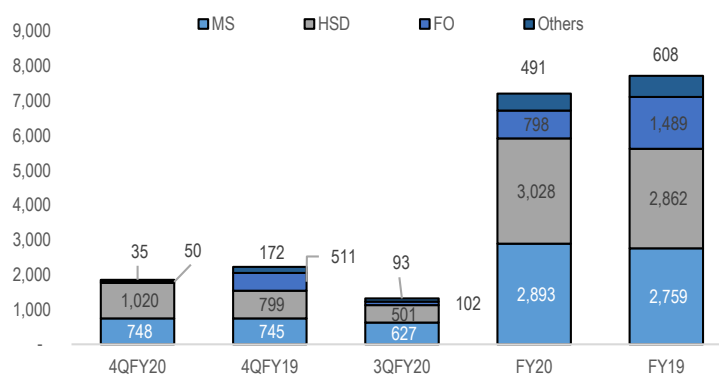
On quarterly basis, losses are expected to extend by 66% QoQ on the back of higher inventory and exchange losses along with despite 40% QoQ rise in total volumes and slight drop in finance cost. We expect penal income to remain on the lower side during the quarter.

Total volumes down by 17% YoY during 4QFY20

For 4QFY20, total sales are down by 17% YoY primarily led by 90% YoY drop in FO sales despite flattish MS volumes and +28% YoY increase in HSD sales. This brings total volumes to 7.2mn ton, down by 7% YoY, for FY20 mainly led by 46% YoY decline in FO sales. However, MS and HSD sales are up by +5% YoY and +6% YoY respectively.

Exhibit: PSO total volumes (000'tons)

Total volumes declined by 17% YoY during 4QFY20 while overall volumes are down by 7% YoY in FY20



Source: IGI Research, , OCAC

Recommendation

We recommend a 'BUY' stance on PSO with our Dec-20 target price of PKR 248.5/share offering 30% upside from last close. The company is currently trading at FY21 P/E of 9.8x.

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Time Horizon: Dec – 2020

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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