

Day Break

Tuesday, 29 October 2019

COMPANY UPDATE

Pakistan State Oil Company Limited

Oil & Gas Marketing Companies

Recommendation		BUY
Target Price:	Dec/20	171.4
Last Closing:	28-Oct-19	141.2
Upside:		21.4
Valuation Methodology:	Discounted Cash Flow (DCF)	

Time Horizon: 14M

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)	66.3	426.5
Exchange	KSE ALL	
Price Info.	90D	06M
Abs. Return	(9.8)	(30.5)
Lo	124.5	124.5
Hi	177.2	201.1
		283.7

Key Company Financials

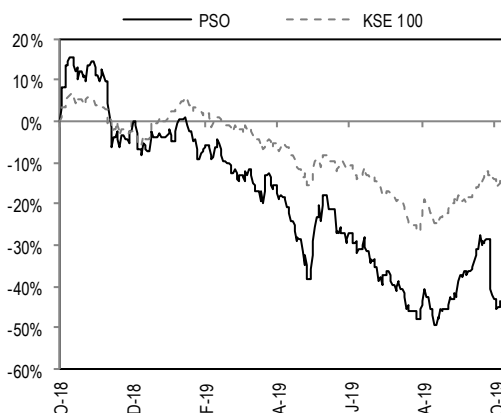
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	1,154.3	1,167.7	877.9	947.5
Net Income	10.6	11.3	8.9	12.2
EPS (PKR)	22.5	24.0	19.1	25.9
DPS (PKR)	10.0	9.0	7.0	10.0
Total Assets	417.1	396.8	376.0	384.6
Total Equity	119.2	127.1	132.7	140.4

Key Financial Ratios

ROE (%)	14.5	9.2	9.2	6.9
P/E (x)	6.3	5.9	7.4	5.4
P/B (x)	0.6	0.6	0.5	0.5
DY (%)	7.1	6.4	5.0	7.1

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Marketing Companies

PSO: Lower Inventory gains and higher finance cost to drag 1QFY20 EPS by 12%YoY to PKR 7.87

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.70bn (EPS PKR 7.87), down by 12%YoY,
- We estimate decline in earnings on the back a) lower inventory gains estimated at PKR 1.2bn compared to PKR 1.8bn in the same period last year and, b) higher finance cost owing to higher ST borrowing and rise in interest rates.,
- On quarterly basis, earnings are expected to drop by +21%QoQ during 1QFY20. We expect the decline in earnings on sequential basis on the back of a) hefty inventory gains booked during 4QFY19 to the tune of PKR 3.4bn and, b) 8%QoQ drop in total volumes led by FO/HSD,
- We have a 'BUY' call on PSO with our Dec-20 target price of PKR 171.4/share, offering +21% upside from its last close. The company is currently trading at FY20E P/E of 5.9x and offers a dividend yield of 6.4%.

Earnings to clock in at PKR 7.87/share for 1QFY20, down by 12%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.70bn (EPS PKR 7.87), down by 12%YoY, compared to PKR 4.18bn (EPS PKR 8.91) in the same period last year. We estimate decline in earnings on the back a) lower inventory gains estimated at PKR 1.2bn compared to PKR 1.8bn in the same period last year and, b) higher finance cost owing to higher ST borrowing and rise in interest rates. However, decline in earnings is expected to be limited by +10%YoY rise in total volumes led by +27%/+9%/+1%YoY growth in FO/MS/HSD sales.

On quarterly basis, earnings are expected to drop by 21%QoQ during 1QFY20. We expect the decline in earnings on sequential basis on the back of a) hefty inventory gains booked during 4QFY19 to the tune of PKR 3.4bn and, b) 8%QoQ drop in total volumes led by FO/HSD. However, earnings decline is likely to be restricted by 39%QoQ drop in operating cost in the absence of exchange losses.

Exhibit:

PSO Financial Highlights

PKRmn	1QFY20E	1QFY19	YoY	4QFY19	QoQ
Net Sales	328,407	280,028	17%	335,790	-2%
Gross Profit	10,395	10,906	-5%	12,133	-14%
Operating Costs	4,253	3,581	19%	7,024	-39%
Other Op. Income	1,875	970	93%	3,713	-50%
EBIT	8,017	8,296	-3%	8,823	-9%
Finance Cost	2,388	1,826	31%	2,163	10%
Profit Before Taxation	5,684	6,590	-14%	6,784	-16%
Taxation	1,990	2,409	-17%	2,123	-6%
Profit After Taxation	3,695	4,181	-12%	4,660	-21%
EPS (PKR)	7.87	8.91			9.93
DPS (PKR)	-	-			-

Source: IGI Research, Company Financials

No of Shares: 391.23mn

Recommendation

We have a 'BUY' call on PSO with our Dec-20 target price of PKR 171.4/share, offering +21% upside from its last close. The company is currently trading at FY20E P/E of 5.9x and offers a dividend yield of 6.4%.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2019

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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