Day Break

Friday, 04 August 2017

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COMPANY UPDATE

PAKISTAN STATE OIL COMPANY LIMITED
OIL & GAS MARKETING COMPANIES

Recommendation		BUY
Target Price:		519.1
Last Closing:	3-Aug-17	432.1
Upside:		20.1
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		Dec-17

Market Data

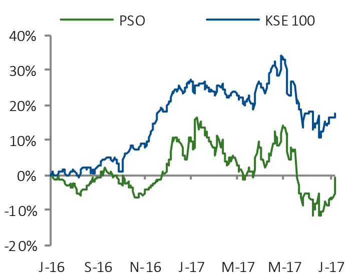
Bloomberg Tkr.		PSO PA
Shares (mn)		271.7
Free Float Shares (mn)		122.3
Free Float Shares (%)		45.0%
Market Cap (PKRbn | USDmn)	117.4	1,113.9
Exchange		KSE 100

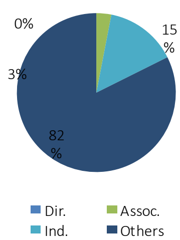
Price Info.	90D	180D	365D
Abs. Return	(2.7)	(14.5)	(1.7)
Lo	368.4	368.4	368.4
Hi	475.3	486.1	486.1

Key Company Financials
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	678.0	880.4	963.5	1,070.9
Net Income	10.27	19.0	19.5	22.6
EPS (PKR)	37.8	69.8	71.8	83.1
DPS (PKR)	12.5	20.0	22.0	25.0
Total Assets	342.3	379.4	412.1	422.1
Total Equity	91.6	105.9	119.4	135.2
Key Financial Ratios				
ROE (%)	11.2	17.9	16.3	16.7
P/E (x)	11.4	6.2	6.0	5.2
P/B (x)	1.3	1.1	1.0	0.9
DY (%)	2.9	4.6	5.1	5.8

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

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Oil & Gas – Marketing Companies

PSO: Ending the Year on a High Note Despite Challenges Faced, Earnings to Clock in at PKR 69.8/share in FY17

- Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 7th Aug-17 to announce financial result for FY17. We expect the company to report earnings of PKR 18.96bn (EPS PKR 69.77) in FY17, up by +85%YoY. For 4QFY17, earnings are expected to decline by 15%YoY to PKR 4.80bn (EPS PKR 17.67). The company is expected to announce cash dividend of PKR 10.0/share along with the result, taking FY17 total cash dividend to PKR 20.0/share.
- Total sales for PSO leaped up by +8%YoY to 14.1mn Ton during FY17 as compared to 13.1mn Ton last year, owing to +8%/+1%/+11%YoY increase in MS/HSD/FO volumes.
- We maintain our "BUY" call on PSO with our Dec-17 target price of PKR 519/share, offering +20% upside from its last closing. The company is currently trading at a FY18F P/E of 6.0x and offers a dividend yield of 5.1%.

Earnings to clock in at PKR 69.77/share in FY17, up by +85%YoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 7th Aug-17 to announce financial result for FY17. We expect the company to report earnings of PKR 18.96bn (EPS PKR 69.77) in FY17, up by +85%YoY compared to PKR 10.27bn (EPS PKR 37.81) in the same period last year. Increase in earnings is expected to emanate from a) +8%YoY rise in total volumes led by +8%/+11%YoY jump in MS/FO sales, b) +36%YoY rise in FO prices leading to higher profit contribution, c) higher contribution from LNG owing to +15%YoY increase in price and, d) slight increase of +5%YoY in operating costs due to effective cost management.

4QFY17 earnings to drop by 15%YoY to PKR 17.67/share, DPS PKR 10.0/share

For 4QFY17, earnings are expected to decline by 15%YoY to PKR 4.80bn (EPS PKR 17.67) as compared to PKR 5.68bn (EPS PKR 20.90) in the corresponding period last year. We attribute this to a) 5%YoY decline in total volumes led by 22%YoY drop in HSD volumes, b) 41%YoY drop in other income, and c) possible inventory loss of PKR 405mn. On Quarterly basis, earnings are expected to jump by +16%QoQ likely on the back of a) 19%QoQ increase in total volumes and b) +2.1xQoQ rise in other income. The company is expected to announce cash dividend of PKR 10.0/share along with the result, taking FY17 total cash dividend to PKR 20.0/share.

Volumes posted muted growth of +8%YoY in FY17

Total sales for PSO leaped up by +8%YoY to 14.1mn Ton during FY17 as compared to 13.1mn Ton last year, owing to +8%/+1%/+11%YoY increase in MS/HSD/FO volumes. However during 4QFY17, total sales witnessed a decline of 5%YoY led by 22%YoY drop in HSD sales to 0.96mn ton, whereas MS/FO volumes augmented by +3%/+1%YoY to 0.68/1.85mn ton. However, on quarterly basis volumes increased by +19%YoY primarily owing to +10%/+18%/+27%QoQ rise in MS/HSD/FO sales

Exhibit: PSO volumes (000'MT)

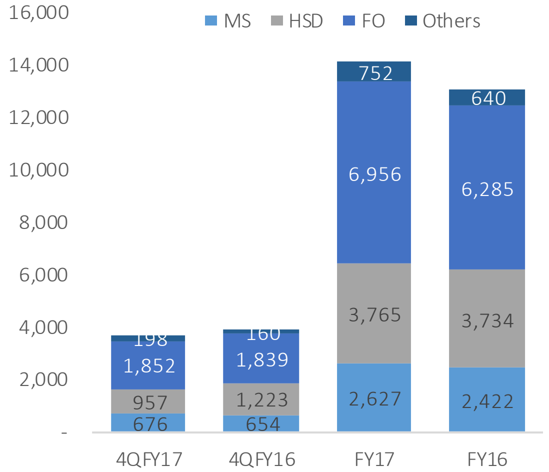

Exhibit: PSO - MS, HSD, FO market share

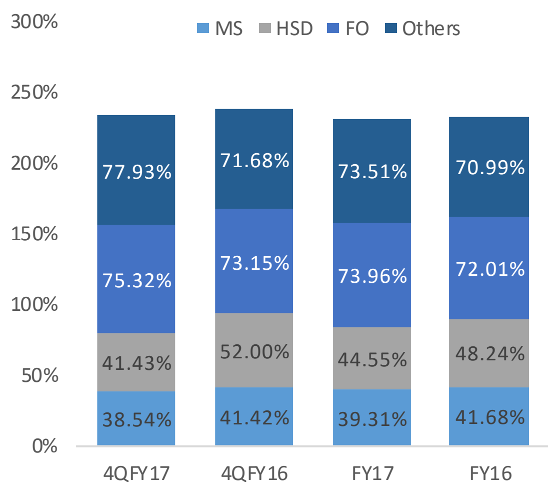

Exhibit:

Financial Highlights

PKRmn	30-Jun-17	30-Jun-16	YoY	QoQ	FY17	FY16	YoY
Net Sales	250,863	189,380	32%	15%	880,372	677,967	30%
Gross Profit	9,156	9,222	-1%	-1%	36,279	22,863	59%
S&D expense	2,244	1,888	19%	2%	8,974	8,426	7%
Admin expense	610	673	-9%	-18%	2,439	2,423	1%
Other Income	3,450	5,870	-41%	103%	11,469	12,798	-10%
EBIT	8,851	11,694	-24%	10%	34,323	22,827	50%
Finance Cost	1,528	2,135	-28%	3%	5,859	7,150	-18%
PBT	7,501	9,558	-22%	12%	29,178	16,289	79%
Taxation	2,700	1,612	68%	5%	10,221	6,016	70%
PAT	4,801	5,680	-15%	16%	18,957	10,273	85%
EPS (PKR)	17.67	20.90			69.77	37.81	
DPS (PKR)	10.00	7.50			20.00	12.50	

Source: IGI Research, Company Financials *No of Shares: 271.69 mn*

Outlook

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 (up by +6.6%YoY in FY17TD) is expected to further lift profitability as margins are de-regulated and linked with price. The Company is expected to increase its storage capacity by 300k MTon in the coming years which is expected to reduce PSO's vulnerability to heavy inventory loss/gain and ease storage concerns especially for MS. Moreover, shelter to heavy inventory losses is expected to emanate from fortnightly revision in POL prices which was previously done on monthly basis.

Recommendation

We maintain our **"BUY"** call on PSO with our Dec-17 target price of PKR 519/share, offering +20% upside from its last closing. The company is currently trading at a FY18E P/E of 6.0x and offers a dividend yield of 5.1%.

Source: Company Financials, IGI Research

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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)
Hold	If target priceon 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 mightunfavorably 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.

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