

# Flash Note

Monday, 24 July 2017

## Oil & Gas - Marketing Companies

### PSO: Cash received against maturity of PIBs; Utilized to pay off Short-term Borrowings

- Pakistan State Oil Company Limited (PSO) through its notice to Pakistan Stock Exchange Limited (PSX) has notified that it has received the entire amount in cash for the Pakistan Investment Bonds (PIBs) subscribed by PSO under the partial Circular Debt Resolution Plan of Government of Pakistan (GoP).
- To recall, PSO subscribed to PIBs in Jul-2012 as a settlement plan by GoP to partially resolve circular debt. The face value of these PIBs comes at PKR 43.8bn (PKR 161/share) carrying an interest rate of 11.5%.
- Considering GoP's current debt obligations and Fiscal position we have rolled over the PIBs at a mark-up of 7.0%. In FY16 PSO received PKR 4.5bn (PKR 16.6/share) in profit on these PIBs and paid PKR 5.04bn (PKR 18.5/share) as interest on short term borrowings.
- The company has announced that it has utilized these proceeds to pay off the short term borrowings secured against these PIBs.
- As a result of maturing PIBs decline in company's other income will be more to compensate company's financial cost of borrowing henceforth, we expect a net negative earnings impact of PKR 2.15/share (net of tax).
- Company's short term borrowing as of 3QFY17 stand at PKR 139bn (FY16: PKR 105bn) while current maturity of PIBs stand at PKR 44.5bn (FY16: zero). As a result of cash utilized to pay off short term borrowing we expect working capital to remain relatively unchanged, thus having minimal or low impact on company's cash flow position.

#### Recommendation

We maintain a **'BUY'** call on PSO with Dec-17 TP of PKR 519/share offering an upside of +36% from its last close. The company is currently trading at FY17E P/E of 6.6x and dividend yield of 4%. We await availability of FY17 company's annual statement to gauge better clarity on balance sheet position.

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**Time Horizon:** Dec - 2017

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