

Flash Note

Monday, 24 April 2017

Oil & Gas - Marketing Companies

PSO: Earnings reported at PKR 15.24/share in 3QFY17 as FO Volumes Plummet by 5%YoY

- Pakistan State Oil Company Limited (PSO) announced financial results for 3QFY17 with earnings clocking in at PKR 4.14bn (EPS PKR 15.24) as compared to a loss of PKR 2.13bn (LPS PKR 7.85) in the same period last year. Cumulative earnings for 9MFY17 stand at PKR 14.16bn (EPS PKR 52.10) up by 3.1xYoY as compared to PKR 4.59bn (EPS PKR 16.91) in the corresponding period last year.
- On quarterly basis, earnings declined by 27%YoY likely owing to a) 61%QoQ decline in other income owing to lower penal interest income, b) higher effective tax rate of 38% (31% in 2QFY17), and c) 10%/34%/8%QoQ decline in MS/HSD/FO volumes.
- The company announced cash dividend of PKR 10.0/share along with the result.
- Revenues for 3QFY17 increased by +62%YoY to PKR 218.2bn as compared to PKR 134.6bn in the corresponding period last year owing to a) +79%YoY rise in FO prices, b) +5%YoY increase in average HSD price, and c) +10%/+2%YoY increase in MS/HSD sales.
- Operating costs declined by 5% to PKR 2.90bn during 3QFY17 as compared to PKR 3.07bn in the corresponding period last year.
- Other income increased by +6%YoY to PKR 1.70bn in 3QFY17 as compared PKR 1.60bn in the same period last year owing to higher penal interest income earned on receivables.
- Finance costs leaped up by +5%YoY to PKR 1.49bn during 3QFY17 as compared to PKR 1.41bn in the corresponding period last year likely owing to increased short term borrowing leading to higher interest cost.
- Effective tax rate increased by 362bps to 38% during 3QFY17 as compared to 35% in the same period last year.

Recommendation

We maintain a **'BUY'** call on PSO with Dec-17 TP of PKR 497/share offering an upside of +12% from its last close. The company is currently trading at FY17E P/E of 6.6x and dividend yield of 4%.

Exhibit:

Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Gross Sales	268,308	187,370	43%	786,077	650,729	21%
Net Sales	218,160	134,615	62%	629,498	488,568	29%
Gross Profit	9,232	(610)	N/M	27,041	13,269	104%
Operating Costs	2,904	3,068	-5%	9,587	8,997	7%
Other Income	1,703	1,602	6%	8,019	6,861	17%
EBIT	8,031	(2,076)	N/M	25,472	11,133	129%
Finance Cost	1,485	1,414	5%	4,331	5,015	-14%
PBT	6,716	(3,265)	N/M	21,677	6,731	222%
PAT	4,141	(2,132)	N/M	14,156	4,594	208%
EPS (PKR)	15.24	(7.85)		52.10	16.91	
DPS (PKR)	10.00	-		10.00	5.00	

Source: IGI Research and Company Financials

No of Shares: 271.69 mn

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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 - 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 might unfavorably 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.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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