

Flash Note

Monday, 06 February 2017

Oil & Gas – Marketing Companies

PSO: Earnings reported at PKR 20.75/share in 2QFY17, up by +62%YoY

- Pakistan State Oil Company Limited (PSO) announced financial results for 2QFY17 with earnings clocking in at PKR 5.6bn (EPS PKR 20.75) up by +62%YoY as compared to PKR 3.5bn (EPS PKR 12.78) in the same period last year.
- Cumulative earnings for 1HFY17 stand at PKR 10.0bn (EPS PKR 36.86) as compared to PKR 6.7bn (EPS PKR 24.76) in the corresponding period last year.
- Revenues for 2QFY17 increased by +22%YoY likely on the back of a) +21%YoY increase in total volumes led by +32%YoY rise in FO sales and b) FO prices augmenting by +28%YoY during 2QFY17.
- Other income mounted by +72%YoY to PKR 4.4bn during 2QFY17 likely on the back of higher penal interest income on delayed payments. To recall, circular debt piled up massively in 2QFY17 with PSO's receivables crossing PKR 220bn.
- Operating costs increased by +10%YoY to PKR 3.1bn as compared to PKR 2.8bn in the corresponding period last year.
- Effective tax rate decreased by 540bps to 31% as compared to 36% in the same period last year.

Recommendation

We maintain our **"HOLD"** call on PSO with our Dec-17 with target price of PKR 497/share, offering +3% upside from its last closing. The company is currently trading at a FY17E P/E of 8.3x and offers a healthy dividend yield of 3.7%.

Exhibit:

Financial Highlights

PKRmn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Gross Sales	276,404	227,094	22%	517,780	463,370	12%
Net Sales	217,836	168,691	29%	411,348	353,965	16%
Gross Profit	8,186	6,616	24%	17,892	14,161	26%
Operating Costs	3,086	2,811	10%	6,684	5,930	13%
Other Income	4,407	2,564	72%	6,316	5,304	19%
EBIT	9,506	6,272	52%	17,441	13,209	32%
Finance Cost	1,567	1,715	-9%	2,846	3,601	-21%
PBT	8,175	4,878	68%	14,961	9,996	50%
PAT	5,639	3,473	62%	10,015	6,726	49%
EPS (PKR)	20.75	12.78		36.86	24.76	
DPS (PKR)	-	5.00		-	5.00	

Source: IGI Research and Company Financials

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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 price on aforementioned security(ies) is in between -10% and 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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