

# Day Break

Monday, 17 February 2020

## COMPANY UPDATE

### Pakistan State Oil Company Limited

Oil & Gas Marketing Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	257.1
Last Closing: 14-Feb-20	188.5
Upside:	36.4
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 11M

#### 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)	88.5   573.3
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	10.9 41.7 (17.4)
Lo	170.0 124.5 124.5
Hi	216.9 216.9 235.0

#### Key Company Financials

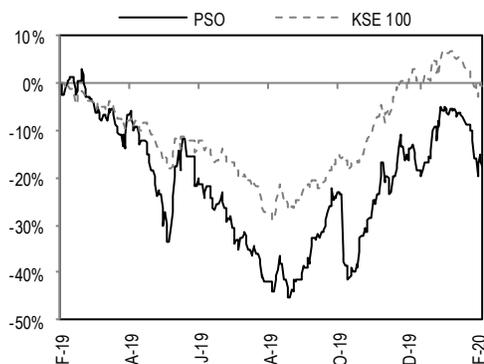
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	1,154.3	1,229.1	913.1	971.9
Net Income	10.6	13.1	15.4	17.6
EPS (PKR)	22.5	28.0	32.8	37.5
DPS (PKR)	10.0	10.0	12.0	14.0
Total Assets	417.1	405.8	371.0	381.1
Total Equity	119.2	128.2	137.9	149.0

#### Key Financial Ratios

	FY19a	FY20e	FY21f	FY22f
ROE (%)	14.5	9.2	10.6	11.6
P/E (x)	8.4	6.7	5.7	5.0
P/B (x)	0.8	0.7	0.7	0.6
DY (%)	5.3	5.3	6.4	7.4

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Marketing Companies

### PSO: EPS to clock in at PKR 4.68 for 2QFY20 on account of lower inventory loss and higher volumes

- ✓ Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 18th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 2.20bn (EPS PKR 4.68), up by +32.3xYoY,
- ✓ We estimate incline in earnings on the back a) +9% YoY increase in total volumes led by +19/+12% YoY jump in MS/HSD sales, b) lower other expense in the absence of exchange losses and, c) lower inventory losses of nearly PKR 1.3bn compared to PKR 4.9bn in the same period last year,
- ✓ On a quarterly basis, earnings are expected to drop by 38%QoQ to PKR 4.68/share owing to by 3%QoQ drop in total volumes led by 35%/9%QoQ decline in FO/MS sales along with inventory loss compared to inventory gain of PKR 1.8bn booked in 1QFY20,
- ✓ We recommend a "BUY" stance on PSO with our Dec-20 target price of PKR 257.1/share offering 36% upside from last close. The company is currently trading at FY20 P/E of 6.7x.

#### Earnings to clock in at PKR 4.68/share for 2QFY20, up by +32.3xYoY

Pakistan State Oil Company Limited's (PSO) board meeting is scheduled on 18<sup>th</sup> Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 2.20bn (EPS PKR 4.68), up by +32.3xYoY, compared to PKR 0.07bn (EPS PKR 0.15) in the same period last year. We estimate incline in earnings on the back a) +9% YoY increase in total volumes led by +19/+12% YoY jump in MS/HSD sales, b) lower other expense in the absence of exchange losses and, c) lower inventory losses of nearly PKR 1.3bn compared to PKR 4.9bn in the same period last year. This will bring total profitability for 1HFY20 to PKR 5.73bn (EPS PKR 12.20) up by +35% YoY compared to PKR 4.25bn (EPS PKR 9.05) in the same period last year. Total volumes are up by +9% YoY in 1HFY20E primarily led by +13%/+7% YoY growth in MS/HSD sales.

On a quarterly basis, earnings are expected to drop by 38% QoQ to PKR 4.68/share owing to by 3% QoQ drop in total volumes led by 35%/9% QoQ decline in FO/MS sales along with inventory loss compared to inventory gain of PKR 1.8bn booked in 1QFY20. Total industry volumes were up by +2% QoQ led by stable MS volumes and +21% QoQ growth in HSD sales.

#### Exhibit: PSO Financial Highlights

PKRmn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Net Sales	324,906	291,825	11%	654,689	571,853	14%
Gross Profit	7,805	5,090	53%	18,512	15,996	16%
S&D Expense	2,515	2,360	7%	5,080	4,428	15%
Admin Expense	646	565	14%	1,370	1,286	7%
Other Charges	337	1,027	-67%	626	1,819	-66%
Other Op. Income	1,907	1,680	14%	3,492	2,650	32%
EBIT	6,215	2,818	2.2x	14,926	11,114	34%
Finance Cost	2,780	2,029	37%	5,420	3,855	41%
Profit Before Taxation	3,490	604	5.8x	9,707	7,194	35%
Profit After Taxation	2,199	68	32.3x	5,727	4,249	35%
<b>EPS (PKR)</b>	<b>4.68</b>	<b>0.15</b>		<b>12.20</b>	<b>9.05</b>	
DPS (PKR)	-	-		-	-	

Source: IGI Research, Company Financials

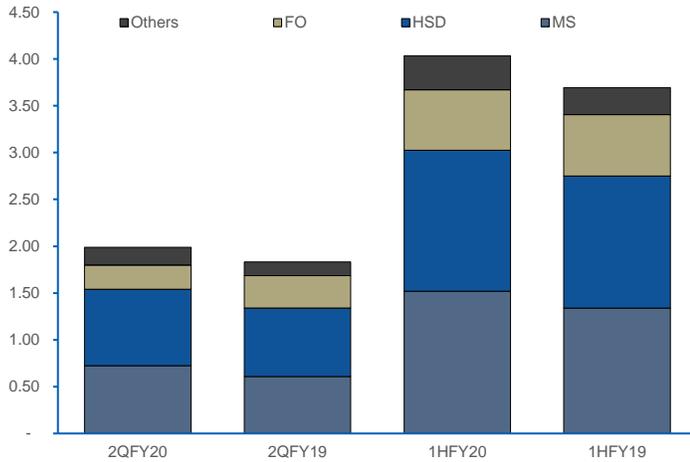
No of Shares: 469.47mn

**Total volumes up by +9%YoY in 2QFY20**

PSO's total volumes are up by +9%YoY to 1.99mn mtos compared to 1.83mn mton in the same period last year primarily led by +19%/+12% YoY growth in MS/HSD sales. Total industry volumes were down by 2% YoY to 4.40mn mtos led by 24%/3%YoY drop in FO/HSD sales. This brings total PSO's volumes to 4.03mn mton for 1HFY20 up by +9% YoY compared to 3.69mn mtos in the same period last year. Total industry volumes are down by 5%YoY in 1HFY20 primarily led by 19%/10% YoY drop in FO/HSD sales.

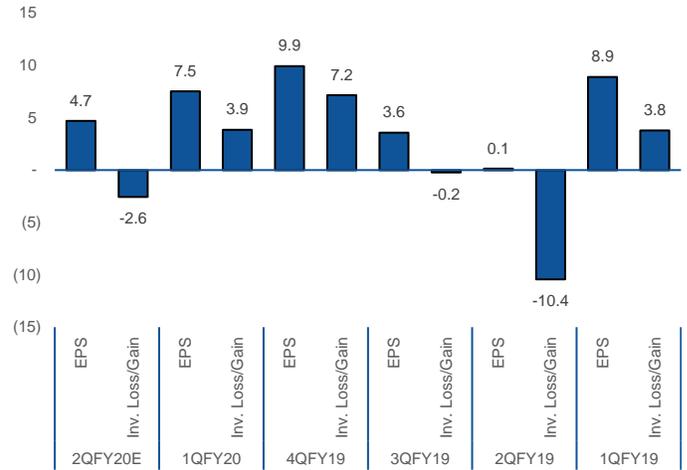
**Exhibit: PSO total volumes for 1HFY20 (mn mtos)**

Total volumes are up by +9%YoY each for 2QFY20/1HFY20 led by MS/HSD



**Exhibit: PSO EPS and inventory (losses)/gains (PKR/share)**

PSO's quarterly EPS in comparison with contribution of inventory losses/gains before tax



**Recommendation**

We recommend a **“BUY”** stance on PSO with our Dec-20 target price of PKR 257.1/share offering 36% upside from last close. The company is currently trading at FY20 P/E of 6.7x.

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec – 2020

**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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