

Pakistan State Oil Company Limited

Result Review

PSX: PSO Bloomberg: PSO: PA Reuters: PSO. KA

Pakistan Research

2QFY19 earnings clocked in at PKR 0.17/share, down 98% YoY

- PSO announced its 2QFY19 financial results today where the company recorded an EPS of PKR 0.17, down by 98% YoY. This takes the 1HFY19 earnings to PKR 10.86/share down 50% YoY. The earnings were much lower than expectations due to lower gross profit likely on account of higher inventory losses. The company did not announce any interim dividend for the quarter.
- Net sales for 2QFY19 increased by 12% YoY, amid falling volumes, primarily driven by 32%/27% YoY increase in for HSD/Mogas prices. However, gross profits are down 47% YoY, likely due to hefty inventory losses. Gross margins settled at 1.7% for the quarter as compared to 3.7% in SPLY.
- 2QFY19 operating expenses settled at PKR 3.95bn, up 8% YoY. Operating expenses were higher than our expectation, likely due to hefty exchange losses.
- Financial charges increased by 98% YoY to settle at PKR 2.0bn, however it was compensated by higher penal income which increased by 1.2x to settle at PKR 1.68bn for the quarter.
- Effective tax rate for the quarter clocked in at 89%, compared to 38.7% during SPLY.
- We maintain our "BUY" stance on the script with the June-19 PT of PKR 333/share. Our price target indicates an upside of 49.6% along with a dividend yield of 6.7%. We'll likely trim our estimates once detailed accounts are available.

Key Data

PSX Ticker	PSO
Target Price (PKR)	333
Current Price (PKR)	223
Upside/(Downside) (%)	+ 50%
Dividend Yield (%)	7%
Total Return (%)	+ 56%
12-month High (PKR)	353
12-month Low (PKR)	210
Outstanding Shares (mn)	391
Market Cap (PKR mn)	86,998
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY18	2QFY19	YoY	1HFY18	1HFY19	YoY
Net Sales	259,708	291,825	12%	518,353	571,853	10%
Cost of Sales	250,169	286,735	15%	499,623	555,856	11%
Gross Profit	9,540	5,090	-47%	18,730	15,996	-15%
Operating Expense	3,665	3,951	8%	7,050	7,532	7%
Other Income	756	1,680	1.2x	2,969	2,650	-11%
Finance cost	1,023	2,029	98%	1,779	3,855	1.1x
Associate companies profit	53	(185)	-4.5x	211	(65)	-1.3x
Profit Before Taxation	5,660	604	-89%	13,080	7,194	-45%
Taxation	2,168	535	-75%	4,558	2,944	-35%
Net Income	3,493	68	-98%	8,522	4,249	-50%
EPS	8.93	0.17	-98%	21.78	10.86	-50%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
EPS	17.50	26.26	46.24	39.53	33.93	32.36
EPS Growth	-69%	50%	76%	-15%	-14%	-5%
DPS	10.00	12.50	25.00	15.00	14.00	13.00
PER	8.8	5.9	4.0	4.7	6.0	6.4
Dividend Yield	4.49%	5.62%	11.24%	6.74%	6.29%	5.84%
EV/EBITDA	12.2	12.1	6.3	6.4	8.3	10.5
P/B	0.73	0.66	0.59	0.66	0.73	0.69
ROE	8.5%	11.8%	18.6%	14.5%	11.6%	10.3%

Source: Company Accounts, Akseer Research

Muhib ur Rasool
muhib.rasool@akseerresearch.com

Valuation Basis

Our PT for Pakistan State Oil (PSO) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

Investment Thesis

We maintain our "BUY" stance on the script with the June-19 PT of PKR 333/share. Our price target indicates an upside of 49.6% along with a dividend yield of 6.7%. Our investment case on PSO is based on 1) Relief from reduction in circular debt after decline in FO sales and likely entry in IMF program, 2) lower earnings volatility & 3) favourable penal income spread and increasing cash-based earnings should help drive price performance.

Risks

Key downside risks to our investments thesis are: 1) decrease in oil prices, 2) significant loss of market share to other industry players & 3) further accumulation of circular debt.

Company Description

Pakistan State Oil Company Limited engages in the procurement, storage, distribution, and marketing of petroleum and related products in Pakistan. The company offers motor gasoline, furnace oil, jet fuel, kerosene, compressed natural gas (CNG), and liquefied petroleum gas.

Financial Highlights - PSO

Income Statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net Income	906,204	1,096,544	1,305,246	1,278,016	1,096,545	1,162,285
Net Sales	677,967	878,147	1,056,902	1,016,982	869,279	921,233
Cost of Sales	655,104	840,948	1,017,264	980,529	837,713	887,315
Gross Profit	22,863	37,199	39,637	36,453	31,566	33,919
SG & A	14,017	15,246	17,818	17,145	13,343	14,127
Operating Profit	8,846	21,953	21,819	19,308	18,223	19,791
Other Income	841	861	1,769	1,540	1,277	1,475
Financial Income	10,390	7,641	3,587	3,349	3,014	2,713
Finance Cost	7,150	5,923	5,123	7,468	6,831	6,409
Profit Before Tax	16,289	29,208	27,161	21,646	19,885	22,024
Taxation	6,016	11,121	11,699	8,373	7,226	7,601
Profit After Tax	10,273	18,087	15,462	13,273	12,659	14,423

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
PPE	5,416	5,805	6,641	7,836	8,739	9,642
Other LT assets	62,727	18,078	17,818	18,572	19,165	19,817
Non-Current Assets	68,142	23,883	24,459	26,408	27,904	29,459
Current assets	274,173	368,559	378,104	448,530	422,948	441,465
Total Assets	342,316	392,443	402,562	474,939	450,852	470,923
Non-Current liabilities	6,234	8,090	5,165	5,268	5,374	5,481
Current liabilities	244,500	281,504	286,945	350,785	319,020	330,428
Total Liabilities	250,735	289,593	292,110	356,054	324,393	335,909
Equity	91,581	102,850	110,452	118,901	126,475	135,030
Total Equity & liabilities	342,316	392,443	402,562	474,955	450,868	470,939

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net Income	10,273	18,087	15,462	13,273	12,659	14,423
Non-cash Charges	999	1,026	1,057	1,261	1,391	1,522
Operating Cash flows	7,113	-65,715	53,553	-62,096	20,075	20,896
Investing Cash Flow	7,937	-18,862	54,803	-60,775	21,499	21,991
Financing Cash Flow	2,982	25,841	-41,122	69,582	-13,660	-9,064
Net change in cash	4,426	5,214	7,874	4,378	3,634	8,862
Beginning Cash	3,424	-1,605	15	-446	-1,452	2,994
Closing cash	5,720	4,115	4,130	3,683	2,232	5,226

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Pakistan Research Team

Sohaib Subzwari sohaib.subzwari@akseerresearch.com	Muhib ur Rasool muhib.rasool@akseerresearch.com	Saad Nandia saad.nandia@akseerresearch.com
Musadiq Jawaid musadiq.jawaid@akseerresearch.com	Shahbaz Lalani shahbaz.lalani@akseerresearch.com	Asad Rindani asad.rindani@akseerresearch.com

Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
T: +92-21-34320358 -59 -60
E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited
Land Mark Plaza, Suite# 303, Muhammad Bin Qasim Road,
off. I.I Chundrigar Road, Karachi-74000
T: +92-21-38694242
E: info@alfaadhi.net