

Pakistan State Oil (PSO)

2QFY18 EPS of Rs10.7, down 38% YoY; 1HFY18 EPS Rs26, down 15%

In-line with expectations

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Earnings drop 38% amid lower penal income

PSO: Financial Highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Sales	259,708	217,836	19%	0%	518,353	411,337	26%
Cost of goods sold	250,169	209,649	19%	0%	499,623	393,528	27%
Gross Profit	9,540	8,186	17%	4%	18,730	17,809	5%
Other income	756	4,407	-83%	-66%	2,969	6,316	-53%
Other operating expenses	3,665	3,086	19%	8%	7,050	6,684	5%
Operating Profit	6,631	9,506	-30%	-17%	14,649	17,441	-16%
Finance cost	1,023	1,567	-35%	35%	1,779	2,846	-37%
Share of profit from associates	53	236	-78%	-67%	211	366	-43%
Profit before tax	5,660	8,175	-31%	-24%	13,080	14,961	-13%
Taxation	2,168	2,536	-15%	-9%	4,558	4,946	-8%
Profit after tax	3,493	5,639	-38%	-31%	8,522	10,015	-15%
EPS	10.7	17.3			26.1	30.7	

Source: PSX, Topline Research

- Earnings of 2QFY18 stood at Rs3.5bn (EPS Rs10.7) down 38% YoY amid sharp drop in other income during the quarter.
- Revenues of the company improved by 19% to Rs260bn on account of higher international Arab light oil prices (up 27% YoY in 2QFY18) and higher OMC margins on white oil (petrol + diesel).
- In contrast, Gross profit of the company improved by 17% to Rs9.5bn whereas gross margins remained flat at 3.7%. Despite higher revenues and OMC margins, gross margins remained flat due to inventory losses during the quarter, we believe.

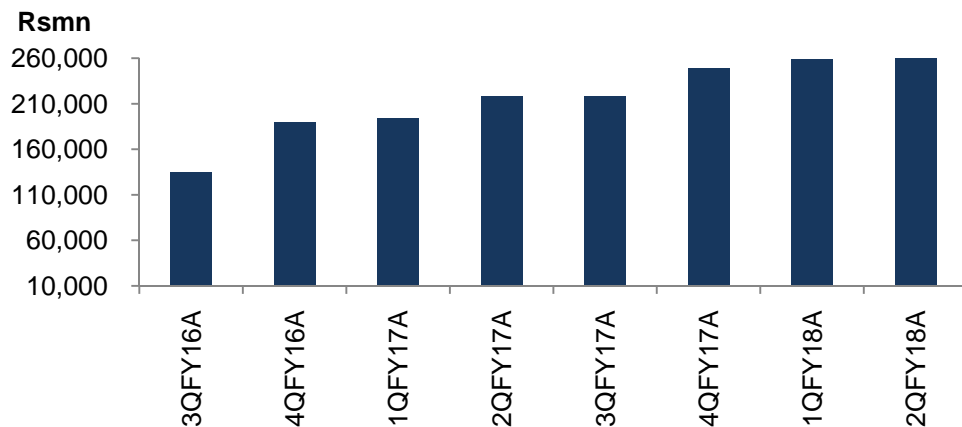
Earnings drop 38% amid lower penal income

- The major drag on the earnings was lower other income which dropped to Rs756mn in 2QFY18 from Rs4.4bn in 2QFY17. This is primarily due to absence of any receipt of penal income (delayed payment charge) during the quarter.
- Other operating expenses grew by 19% YoY in 2QFY18 which remained in line with sales trend. This could be attributed to rise in operating expenses and exchange losses. On the other hand, finance cost was down 35% YoY to Rs1bn during 2QFY18 which to some extent supported earnings.
- Key risks to the stock includes: 1) volatility in oil prices and inventory losses, 2) rupee depreciation & exchange losses and 3) sharp pile up in circular debt.

PSO: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	38.5	66.9	21.3	31.5	55.8
Earnings Growth	39%	74%	-68%	48%	77%
PE at Rs305.4	7.9	4.6	14.4	9.7	5.5
Dividend Yield	2%	2%	3%	4%	8%
ROE	21%	27%	8%	11%	18%
PBV	1.6	1.2	1.2	1.1	1.0

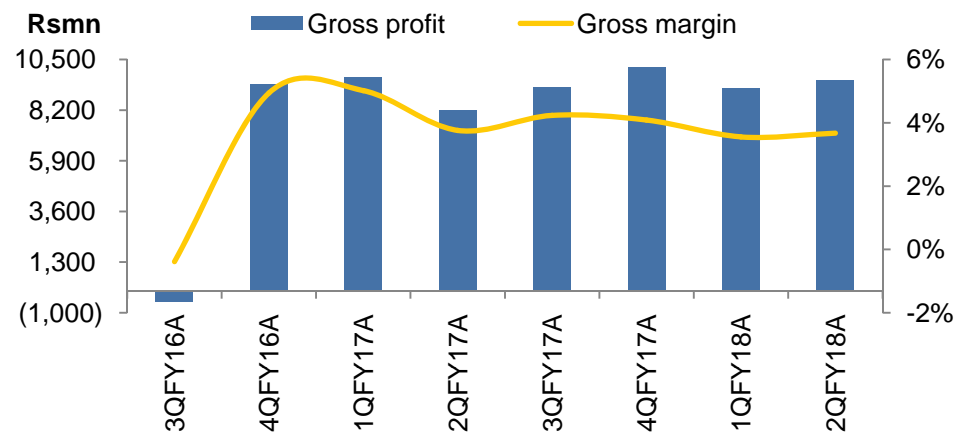
Source: Company Accounts, Topline Research

PSO: Quarterly Sales



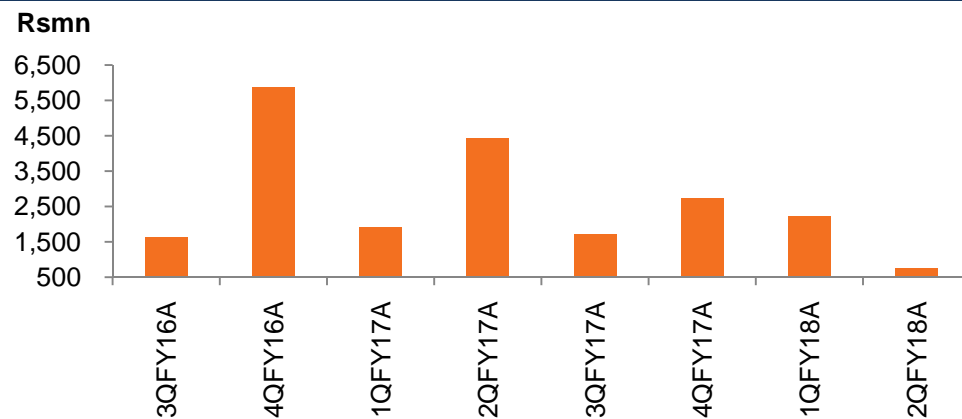
Source: Company Accounts, Topline Research

PSO: Quarterly Gross Profit & Gross Margins



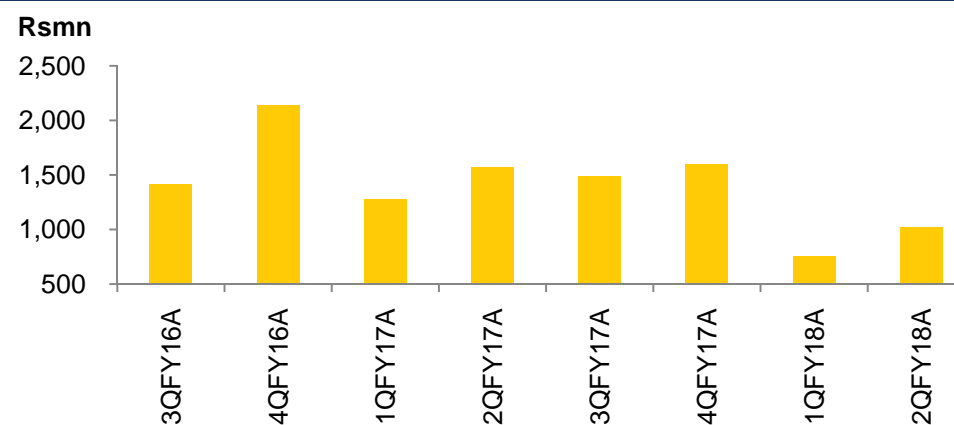
Source: Company Accounts, Topline Research

PSO: Quarterly Other Income



Source: Company Accounts, Topline Research

PSO: Quarterly Finance Charges



Source: Company Accounts, Topline Research

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