



Today's Daily

■ PSO: Politics pervading profitability

As the state OMC is set to announce FY18 earnings over the weekend (11th August) we forecast tepid 4QFY18E NPAT of PkR3.54bn (EPS:PkR10.85/sh) shouldering a decline of 13%YoY/25%QoQ led by weaker GMs and mounting financial costs (spillover from foreign exchange weakness). FY18E earnings are set to rest at PkR51.42/sh (NPAT of PkR16.76bn) sliding 8%YoY despite topline growth of 17%YoY, a staggering decline in other income (down 45%YoY amidst the absence of major penal income) and a strained balance sheet keep profitability in check. Following the result and in the backdrop of a new Government being formed at the center, investor expectations are bound to shift to possible management restructuring, with repercussions on operations (market share) and profitability. Even so, in the current scenario of "professional management" professed by the incoming PTI-led government, we believe outcomes should swing to favor PSO (circular debt relief, PIA restructuring, lessening political interference) over the long term. At our TP of PkR399/sh an Accumulate stance is inferred.

KSE100 - Index

Current	42,760.13
Previous	42,808.66
Chg.	-0.11%

Mkt Cap. (PkRbn/US\$bn)

Current	8,766 / 70.55
Previous	8,764 / 70.54
Chg.	0.02%

Daily Turnover (mn)

Current	239.52
Previous	153.81
Chg.	55.7%

Value Traded (PkRmn/US\$m)

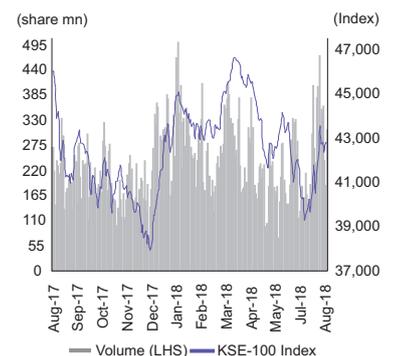
Current	9,936 / 79.97
Previous	6,694 / 53.88
Chg.	48.4%

AKD Daily

Wednesday, Aug 08, 2018

News and Views

- The Election Commission of Pakistan (ECP) on Tuesday withheld the notification of 11 National and 23 Provincial assemblies' constituencies due to cases in courts, non-submission of returns, recounting and other reasons. According to ECP, the notification of Imran Khan's success in NA-53 (Islamabad) and NA-131 (Lahore) has also been withheld.
- SBP has issued "Governance Framework" for banks' overseas operations to further strengthen the risk management and compliance practices. As per framework, the bank will develop comprehensive risk governance framework for its overseas operations within six month of issuance of this framework.
- Supreme court has directed the Ministry of Finance and the FBR to reduce taxes imposed on locally-assembled vehicles from 33% to 25%.



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PSO: Politics pervading profitability

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4QFY18E PSO Preview: We expect PSO to post a full year FY18E EPS of Pkr51.4/share vs. Pkr55.9/share in FY17 backed by minimal inventory loss amounting to ~Pkr1.4bn for FY18E (vs. Pkr1.0bn in FY17). For 4QFY17E we expect NPAT to read at Pkr3.54bn (EPS:Pkr10.85/sh) a decrease of 13%YoY where the significant other income booked in 4QFY18 (Pkr23bn received in March'18) is largely absent, balanced to some extent by higher income from RLNG (volumes of ~4.2mn tonnes moved in FY18 increasing 35%YoY adding ~Pkr1.0bn to NPAT). Stalled volumetric offtake in FO (down 30%YoY), softer growth in MOGAS/HSD of 10%/2%YoY and RLNG income expected to add Pkr3.07/share from the government's LNG procurement should keep probability in check. Accompanying results we expect the company to announce a payout of Pkr10.0/sh taking FY18E full year DPS to Pkr20/sh.

PSO: Income Statement

(Pkrmn)	4QFY18E	4QFY17	YoY%	QoQ%	FY18E	FY17	YoY%
Net sales	278,974	248,649	12.2%	23.3%	1,023,613	878,147	16.6%
Cost of products sold	268,149	238,491	12.4%	24.1%	983,876	840,948	17.0%
GROSS PROFIT	10,825	10,158	6.6%	6.3%	39,737	37,199	6.8%
Total Operating Expense	3,483	3,694	-5.7%	12.7%	13,622	13,282	2.6%
Other income	839	2,726	-69.2%	-60.3%	5,920	10,745	-44.9%
Operating profit	8,181	9,189	-11.0%	-11.1%	32,035	34,662	-7.6%
Financial charges	1,809	1,592	13.6%	-5.1%	5,496	5,923	-7.2%
Share of Profits Associate	60	73	-16.8%	8.0%	327	608	-46.3%
Profit before Taxation	6,433	7,670	-16.1%	-12.5%	26,866	29,347	-8.5%
Provision for Taxation	2,895	3,601	-19.6%	9.2%	10,103	11,121	-9.2%
Profit after Taxation	3,538	4,069	-13.1%	-24.8%	16,763	18,226	-8.0%
EPS @ outstanding shares	10.85	12.48	-13.1%	-24.8%	51.42	55.90	-8.0%

Source: Company report & AKD Research

Volumetric Variations by POL Segments

	4QFY18	QoQ%	YoY%	FY18	YoY%
FO	174%		-33%	-30%	
HSD	13%		-6%	2%	
MOGAS	15%		6%	10%	

Source: OCAC & AKD Research

KSE100 Index vs. PSO



Source: PSX & AKD Research



Past dictates future?: Observing prior changes in the Government at the center, we highlight the change of GoP portfolios as having a direct impact on state run companies where it seems PSO stands firmly on the frontline for senior management restructuring. This is made easier as provisions of the Marketing of Petroleum Products Act 1974 allow for the MD to be appointed by the Prime Minister of Pakistan. Analyzing the removal and appointments of Managing Directors of the OMC (title for the CEO) over the last ten years (two government terms) we show that in the period seven MDs have been appointed to the role. The average term for serving MDs is ~five quarters, where variability in management had been highest during FY08-09 and FY11-12, both periods where two MDs were appointed. Additionally, wider slew of issues over members of the Board of Management (constituted by the GoP) and their appointments have marred affairs at the OMC as well.

Investment Perspective: Patchwork of statements made by senior leaders of the incoming PTI-led Government, point to a greater degree of "professional management" in running the financial affairs give confidence to improved governance taking root at the OMC. Moreover, it has also been observed that controversy surrounding the role of senior management at PSO had been greatly exaggerated, with the majority of MDs being removed over unsubstantiated allegations. In an environment where the state OMC can no longer rely on continued profitability from GoP backed FSAs, competing in retail fuels domain necessitate these measures. Remaining sanguine, we believe outcomes should swing to favor PSO (circular debt relief, PIA restructuring, lessening political interference) over the long term. At our TP of PkR399/sh an Accumulate stance is inferred.

PSO MD Appointments/Removals

Appointments and Removals Tenure		
Feb-08	Muhammad Abdul Aleem appointed MD	1 Year
Feb-09	Irfan Qureshi appointed MD	2 years and 2 mths
Apr-11	Jehangir Ali Shah acting MD	8 mths
Dec-11	Naeem Yahya Mir Appointed MD after probation	1 year & 7 mths
Jul-13	Amjad Janjua Appointed MD	1 year & 6 mths
Jan-15	Shahid Aslam Appointed MD	6 mths
Jul-15	Removal of Shahid Aslam	2 years
Sep-15	Sheikh Imran-ul-Haque Appointed MD	2 years & 10 mths

Source: Co, Media reports & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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