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Today's Daily

PSO: 1HFY18 accounts make for a tough read

Reading the recently released detailed accounts for 1HFY18, key hardships faced by the nation's largest OMC are: 1) increasingly risky debt exposure from both foreign currency loans and concessionary FE-25 loans which come with un-booked receivables, 2) 'circling near the edge' circular debt scenario where additions at these levels were last seen before June'14 oil price decline, and 3) size, scale and dependability minimize the room for agile operations, which smaller, international-backed OMCs are able to employ. In a nutshell, PSO's size can be its greatest liability, where (as we have posited before) the shift to retail fuels and other segments and away from FO (with long term fuel supply agreements) requires significant cash, CAPEX and commitment, in our view. Moreover, incorporating ~21%YoY reduction in FO sales to flow through to FY19F, we lower our TP on PSO by 4.2% to PkR382/sh, where retaining our BUY call.

KSE100 - Index

Current	43,495.07
Previous	43,407.72
Chg.	0.20%

Mkt Cap. (PkRbn/US$bn)

Current	9,091 / 82.22
Previous	9,065 / 81.99
Chg.	0.28%

Daily Turnover (mn)

Current	220.44
Previous	198.43
Chg.	11.1%

Value Traded (PkRmn/US$mn)

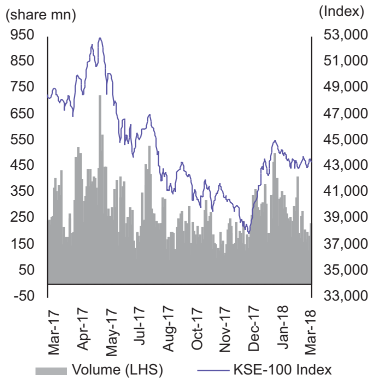
Current	5,733 / 51.85
Previous	6,792 / 61.43
Chg.	-15.6%

News and Views

- Adviser to PM on finance, Miftah Ismail has stated that the GoP plans to provide relief to the stock market by abolishing super tax, taxes on bonus and consider the issue of holding period for CGT in the upcoming budget, alongside with major changes in withholding taxes regime and RD imposed on imports. Furthermore, he dismissed the possibility of raising a loan from the international markets and stressed that subsidies other than power tariff differential was not acceptable

- In its latest PPM report, the IMF has raised concerns over the country's ability to repay its debt obligations. Deteriorating external sector and continued fiscal slippages are the key culprits behind rising debt sustainability risks. The International lender estimates Pakistan's gross financing needs for FY18 at US$24.46bn.

- As per the recent SBP data, the country's total FX reserves fell by US$88mn during the previous week, standing at US$18.24bn (-0.5%WoW). The reserves held by SBP recorded at US$12.13bn (down US$107.5mn), while commercial bank's reverses increased by US$19mn.



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Reading the recently released detailed accounts for 1HFY18, key hardships faced by the nation's largest OMC are: 1) increasingly risky debt exposure from both foreign currency loans and concessionary FE-25 loans which come with un-booked receivables, 2) 'circling near the edge' circular debt scenario where additions at these levels were last seen before June'14 oil price decline, and 3) size, scale and dependability minimize the room for agile operations, which smaller, international-backed OMCs are able to employ. In a nutshell, PSO's size can be its greatest liability, where (as we have posited before) the shift to retail fuels and other segments and away from FO (with long term fuel supply agreements) requires significant cash, CAPEX and commitment, in our view. Moreover, incorporating ~21%YoY reduction in FO sales to flow through to FY19F, we lower our TP on PSO by 4.2% to PkR382/sh, where retaining our BUY call.

Debt burdens persist: A reading of the detailed accounts, reveals a slight slipping of liquidity (1.33x in 1HFY18 vs. 1.30x in June'17), leverage (Debt/assets of 71% as of 1HFY18) underpinned by: 1) increasingly risky debt exposure from both foreign currency loans and concessionary FE-25 loans, where apart from booking of exchange losses (PkR754mn for 1HFY18) recent depreciation has led to un-realized PkR1.4bn accrual, to be received from GoP adding to, 2) 'circling near the edge' circular debt scenario where additions to major receivables during the period stood at PkR32.4bn, accretion last seen before June'14 oil price decline, and 3) size, scale and dependability of operations minimize the room for agile operations, volume capping or curbing committed volumes, while hurting finances when IFEM settlements are delayed or port operations are hindered.

Investment Perspective: In a nutshell, PSO's size can be its greatest liability, where (as we have posited before) the shift to retail fuels and other segments and away from FO (with long term fuel supply agreements) requires significant cash, CAPEX and commitment, in our view. On that note, PSO has shown remarkable resilience, and with the largest retail network in the country, stands to benefit from its geographical footprint and presence in high margin segments (LPG/Lubes segment margins at 2.56/~4.5%). Moreover, incorporating ~21%YoY reduction in FO sales to flow through to FY19F, we lower our TP on PSO by 4.2% to PkR382/sh, retaining our BUY call. Finding it hard to seek better value on multiples (FY18E/19F P/E of 5.6/5.2x) and D/Y (of 9.1/10% for FY18E/19F), where clearance of circular debt is a saving grace.

Quarter Wise Profitability with Inventory Losses

(PkRmn)	1HFY18	1HFY17	YoY%	1HFY16
Gross Sales	518353	411337	26%	227,095
Gross Profit	20765	17743	17%	14,981
Other income	2969	6316	-53%	5,603
Admin, distribution & Other Expenses	-7050	-6684	5%	(5,397)
Operating Profit	16684	17375	-4%	15,187
Share of profit from Associate	211	366	-42%	68
Financial Charges	-1779	-2846	-37%	(3,601)
Profit Before Tax (Ex- Inv. Loss)	15116	14895	1%	11,654
Provision for Tax	-5170	-4925	5%	(3,572)
Profit After tax (Ex- Inv. Loss)	9946	9970	0%	8,082
Inventory Gain/Loss	-2035	66	-	(907)
Taxation	611	-20	-	299
Inventory Loss Net of Tax	-1424	46	-	(608)
NPAT	8522	10016	-15%	7,474
EPS (PkR)	26.14	30.72	-	22.92

Source: Management & AKD Research

Sales Volumes (000'Tons)

Products	1HFY18	1HFY17	YoY	1HFY16
White Oil				
HSD	2171	1996	9%	1710
Gasoline	1593	1354	18%	1223
JP-1	306	269	14%	214
SKO	40	37	8%	54
Sub-total	4110	3656	12%	3201
Black Oil				
FO	3167	3678	-14%	2925
LDO	4	3	33%	7
Sub-total	3171	3681	-14%	6133
Lube	18	16	13%	14
JP-8	69	39	77%	29
Others	17	13	31%	7
Sub-total	7385	7405	0%	6183
LNG	2218	1487	49%	717
Total	9603	8892	-	6900

Source: Management & AKD Research

Major Gross Receivables Outstanding

	Feb-18	Dec-17	Jul-17	Jun-17
Power Sector	205.5	203.1	184.2	176.1
LNG (SNGPL	20.6	16.5	2.7	14
Price Differential From GoP	13.1	13.3	9.6	9.6
PIA	9.6	9.6	13.6	13.3
Sum	248.8	242.5	210.1	213.0
Late Payment Surcharge	82.2	80.5	73.8	73.7

Source: Management & AKD Research

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