

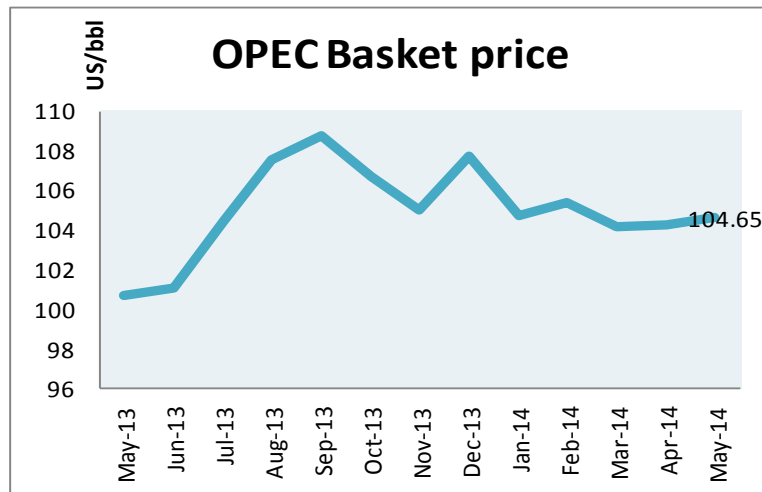
PSO is still in safe heaven |BUY with revised TP of Rs 430/sh

Pakistan State Oil (PSO) the market leader with 75% market share in black oil and 53% market share in white market is still in safe heaven given expected inventory gain, volumetric sales and other income. The growth in earnings will be a better base for the additional dividend in full year.

The international oil prices remained flat

The OPEC Basket price remained stable somehow around \$104-\$106 per barrel in this quarter and expected to remain downward in upcoming days. PKR has also appreciated against USD recently which is good omen for import oriented entity like PSO.

Besides lowering cost of imported oil the oil prices in local market remained flat or upward which have generated room for PSO to enhance its profitability. This enhancement in profitability was observed in quarterly financials.



Interest income to surge non operating income

The Government of Pakistan (GoP) has paid the circular debt payment through interest bearing bonds. The interest income on these bonds is adding value into company's non operating income. Given stable interest rate scenario PSO's other income segment will go up in the final quarter and next year results.

PSO Statistics

Avg Volume (52 Weeks)	2.7mn
Close	393.52
52 Weeks High	456.99
52 Weeks Low	247
Market Capitalization	106.91bn
Beta	1.51
Total No of Shares	271.69mn
Free-Float Shares	77.49mn

Source: www.scstrade.com

Pakistan State Oil

Valuation highlights

In million Rs	FY13A	FY14E	FY15E
Gross Sales	1,294,503	1,333,753	1,413,778
Net Revenue	1,100,122	1,123,819	1,201,712
Gross Profit	36,509	37,938	43,262
Operating expense	10,400	12,582	13,463
EBIT	26,109	45,981	51,777
Finance charges	7,591	9,511	10,268
EBT	19,089	37,043	42,119
PAT	12,558	24,549	27,799
EPS(Rs.)	50.8	90.4	102.3
DPS (Rs)	5.50	11.0	15.00
Bonus (%)	20%	20%	20%

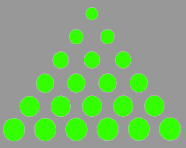
Source: Company Data & SCS Research

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Cash and stock dividends expected.....

The expected growth in profitability will enable company to increase payout ratio.

In addition to interim dividend of Rs4 cash and 10% stock, we expect company may announce another cash dividend of Rs7 wherein another 10% bonus could also be a possibility (the cumulative dividend Rs 11/sh & 20% stock dividend for FY14).

Valuation- TP revised to Rs 430/sh

Based on our estimated earnings for FY14 and FY15 PSO yields PE of 4.4x and 3.9x respectively.

Given expected growth in bottom-line and expected dividend in coming year we uplift our target price by 7% to Rs 430.

We reiterate **BUY** for PSO.