



KSE100 11034.92 Closing (-369.25points)

August 10, 2011

Pakistan Research

Oil | Co. update

PSO Review- Tax reversals resulting in astonishing EPS..... BUY @Rs215.95/sh

Pakistan Sate Oil (PSO) announced its FY11 results which were quite in line with our expectations as far as various heads in *profit and loss account*. However, the EPS of Rs86/sh, showing a 63% increase from prior year, was way beyond our expectations and was caused by tax reversals that are normally not in the knowledge of the analysts.

The major reason behind the unexpected results demonstrated by the highly augmented EPS of Rs86.17/sh is the taxation amount of Rs3.19bn which declined by 64% from prior year. The cause of this huge decline is the losses suffered by PSO in the past which were reversed in FY11.

The company reported net sales of Rs974bn being 10% higher from the prior year sales of Rs877bn. This increase was mainly attributable to the price hikes in petroleum products viz. HSD, FO, MOGAS etc. from which the company tend to benefit.

P&L a/c	Rs '000	FY10	FY11	%chg
Gross sales		877,173,254	974,917,064	11%
Net sales		742,757,951	820,530,364	10%
COGS	(713,591,707)		(786,250,059)	10%
Gross profit		29,166,244	34,280,305	18%
Other operating income		1,479,054	1,815,951	23%
Other operating expenses	(8,080,568)		(9,546,968)	18%
WPPF & WWF	(1,331,317)		(1,332,154)	0.1%
PBIT		21,233,413	25,217,134	19%
Other income		6,095,348	4,143,710	-32%
Profit from operations		27,328,761	29,360,844	7%
Finance cost	(9,882,010)		(11,903,162)	20%
Share of profit of associates		516,401	516,752	0%
PBT		17,963,152	17,974,434	0%
Taxation	(8,913,556)		(3,195,120)	-64%
PAT		9,049,596	14,779,314	63%
EPS		52.76	86.17	63%

Source:KSE announcement

The margins of PSO could be determined as follows:

Margins	FY10	FY11
GP margin	3.9%	4.2%
PBIT margin	2.9%	3.1%
PBT margin	2.9%	3.1%
PAT margin	1.2%	1.8%

Source:KSE announcement

It could be seen that there have been no major increases in margins from prior year hence proving the fact that the chief cause behind the unexpectedly raised EPS are the tax reversals. **The company also declared a final dividend of Rs2/sh resulting in total dividend of Rs10/sh. As per our financial model, the expected PE and EPS for FY12 and FY13 is 3.39x (EPS Rs60.60/sh) and 2.51x (Rs81.97/sh) respectively.**

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PSO closing	Rs205.67
High	Rs215.26
Low	Rs204.50
Chg	-9.59%
52 week hi	Rs317.79
52 week low	Rs204.50
Beta	1.00
Total # of sh.	171.51mn
Free float	77.49mn

*ACCA (affiliate)