TAURUS
SECURITIES LIMITED

Equity Profile

Pakistan State Oil

Kats Symbol: PSOCL	**Current Price* Rs158.30**
Kats Code: JB007	**12 month Target Price Rs194**
KSE Sector: **Fuel and Energy**	**Short Term NEUTRAL / Long Term ACCUMULATE**

Company Information

Formation	1976	**Location**	Country-wide
Primary activity	Storage, distribution and marketing of POL products and petrochemicals.	**Products**	Gasoline, Diesel, Furnace Oil, Jet Fuel, Kerosene, Lubricants, Industrial Chemicals, LPG and CNG.
Ownership		**Mkt share**	70%
Federal Government	25.51%	**Capacity**	
Financial Institutions	32.65%	Storage	773381 MT
Foeign Investors	18.60%	Installations	9
Individual Investors	16.17%	Depots	29
Listing on KSE	1977	Retail Outlets	3610

Industry Highlights

At present, there are three key players in the oil marketing sector viz. Pakistan State Oil, Shell and Caltex, with PSO being the largest of the three. Oil marketing companies operate on fixed margins for most products (exception being furnace oil and lubricants), in that, their gross profitability is directly linked to the sales price of these products. Quarterly reviews of POL product prices ensures that these follow international trends.

Increased government focus on foreign investment in the oil and gas sector signals a more competitive environment in the near term. Heavy regulation thus far been the primary disincentive for new investment in the industry. Of late, however, there has been encouraging activity on this front and the pace at which price and import controls are being lifted may well surpass most expectations. The sector transition towards a new market structure provides a definite deregulation upside for all OMCs in the next two years.

Company Performance and Outlook

PSO's increased focus on retail marketing is beginning to show positive results. This, combined with a virtual monopoly on furnace oil distribution, has bossted profitability in the last few months.

Currently, we are forecasting a 10% YoY growth in profit after tax for FY01; this is despite an impressive 57% increase in the first six months (over the corresponding period last year) primarily because we are not anticipating any major price increase in regulated products before June 2001. This will keep the company from booking heavy inventory gains, as it did in the first half, hence growth in the second half will remain limited to performance in sales volumes.Going forward, we foresee some suffering on account of furnace oil volumes as consumers opt for a cheaper substitute in natural gas (KESC units at bin Qasim are due for conversion within this year); however deregulation will offer PSO ample opportunity to better its margins before others enter the market.

Our DCF fair value for PSO is Rs194, offering a 22% upside from its current level. Accumulation around these levels would make sense for long term value investors; in the shorter term, however, we do not see much room for a major price upside.

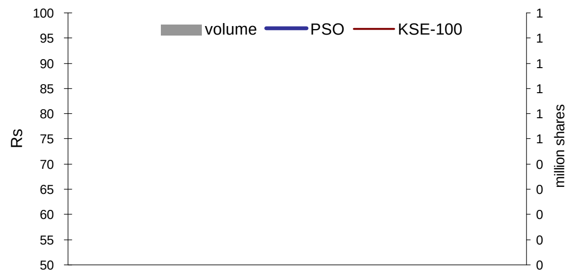
Valuation Statistics *(@ current price*)*

	FY98A	FY99A	FY00A	FY01F	FY02F
EPS (Rs)	12.9	18.7	15.6	17.2	21.4
EPS growth	-10%	45%	-16%	10%	25%
P/E (x)	12	8	10	9	7
P/EBITDA(x)	6.47	5.78	5.65	4.81	4.00
CFS (Rs)	8.1	3.8	22.6	28.4	34.6
P/CFS (x)	19.6	42.1	7.0	5.6	4.6
BVS (Rs)	46.1	57.3	62.9	69.0	77.5
P/BVS(x)	3.44	2.76	2.52	2.29	2.04
EV / EBIT (x)	7.2	6.3	6.1	5.1	4.2
DPS (Rs)	8	9	10	11	13
Dividend yield	5%	6%	6%	7%	8%
EVA	6.3%	9.8%	0.9%	2.5%	3.6%

Relative Valuation

		FY98A	FY99A	FY00A	FY01F	FY02F
Rel. P/Ex	*Peer*	12	8	10	9	7
	Market	6.47	5.78	5.65	4.81	4.00
Rel. P/CFSx	*Peer*	19.6	42.1	7.0	5.6	4.6
	Market	3.44	2.76	2.52	2.29	2.04
Rel. P/BVSx	*Peer*	19.6	42.1	7.0	5.6	4.6
	Market	7.2	6.3	6.1	5.1	4.2
Rel. Div. Yld	*Peer*	5%	6%	6%	7%	8%
	Market	5%	5%	8%	7%	2%

Price Performance (12 month)



	1 month	3 month	12 month
Relative performance	1.12	0.99	0.81

Trading Data *(previous 12 months)*

52 week High	271.50
52 week Low	130.00
Avg. Dly Vol. (m shares)	15.78
Shares Outstanding (m)	142.93
Mkt. Cap. (Rs b)	22.63
Mkt. Cap. (US$m)	383.49
Beta	1.43
Free float	16%

Financial Highlights

Rsm

	FY98A	FY99A	FY00A	FY01F	FY02F
Net sales	77,719	61,697	102,467	144,531	153,601
Gross Profit	4,834	5,245	5,670	6,523	7,621
EBIT	3,119	3,497	3,562	4,121	4,921
PAT	1,846	2,671	2,231	2,455	3,060
Current assets	25,186	21,681	26,282	30,650	31,535
Total assets	29,165	25,635	30,794	35,515	37,138
LT liabilities	888	958	1,124	1,160	1,201
Shareholders' equity	6,586	8,184	8,986	9,868	11,071
Cash	1,106	1,636	2,151	2,872	3,147

Key Ratios

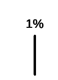
	FY98A	FY99A	FY00A	FY01F	FY02F
GP margin	4.0%	4.5%	4.2%	3.9%	4.2%
NP margin	1.5%	2.3%	1.7%	1.5%	1.7%
Sales growth	10.8%	-4.7%	16.8%	23.0%	9.9%
EBITDA growth	-17.9%	11.9%	2.3%	17.5%	20.1%
ROE	28.0%	32.6%	24.8%	24.9%	27.6%
ROCE	28.6%	30.8%	21.9%	24.3%	25.5%
WACC	22.3%	21.0%	20.9%	21.8%	21.8%
LT debt/Equity	0.1	0.1	0.1	0.1	0.1
Interest coverage(x)	11	12	11	9	14
Inventory days	21	30	28	20	20

DCF Valuation

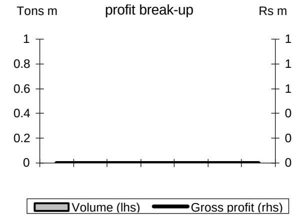
Rs per share

	discount rate			
growth	20%	22%	24%	26%
3%	178	163	149	138
5%	195	177	160	147
7%	217	**194**	173	157
9%	246	217	190	171

Overall market shares:
July-Dec 2000



FY01E: PSO sales volume and gross profit break-up



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