Title Accounting Project PSO 2K5B

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EXECUTIVE SUMMARY

The balance sheet shows that the current ratios and the current liabilities have both increased as assets of PSO have increased due to expansion in operations. The owner equity has also increased mainly because of retained earnings showing continue trend of high profits over the year. The overall depiction that analyst can perceive from the balance sheet is that PSO is a very profitable company and has a very bright future and no going concern.

Over the years long term investments have dropped and there is a decrease in loans and advances .the current assets have decreased till 2003 and rose in 2004-05 short term liability have increased and the long term liability have also decreased. The share and capital reserves kept on declining but retained earnings increase from 2002-04

In the statement of changes of changes in equity shows that both the companies are very profitable companies and both are continuously expanding there businesses and they are passing larger portion of profits to there investors and stock holders. The companies have a very strong financial position that is depicted by expanding retained earnings of both Shell and PSO.

Income statement of both shell and PSO show that net income over the year has increase due to increase in sales and decrease in expenditure operating. Along with this, the expansion that was done in the previous year is giving out profit and most of profits are coming from operating activities

The overall cash inflow of the operating activities of PSO has increased by 89% which is due to the increase in sales volume and also because of the better administration which has cut down the cost to minimum.

The cash inflow of Shell from the operations has decreased by 21% which is due to the declining trend of cash generation. In PSO the fixed capital expenditure has decreased by 28.10% due to the disposing off its various

equipments. The overall cash outflow from investing operations has increased by 28.6% because of the sales of their fixed assets.

In case of shell the investing activities have decreased by 27% due to the lesser investments in the current year. In case of PSO the cash outflow from the financing have decreased by 399% and in case of Shell it is decreased by 112%.

LITERTURE REVIEW

PSO being the third largest publicly listed company in Pakistan by equity market capitalization and has received the KARACHI STOCK EXCHANGE award for 17 consecutive years among the top 25 countries. . Pakistan state oil is engage in import, storage, distribution and marketing of various POL products, including Mogas, HSD, Fuel Oil, Jet Fuel, Kerosene, LPG, CNG and petrochemicals The annual demand for the petroleum products in Pakistan is about 18 million tones. The government of Pakistan actually holds about 54% share of PSO.

Among the other five OMCS operating in Pakistan PSO has substantial market share. The direct competitor is shell. Whereas it's indirect competitors include CALTEX, ATTOCK OIL REFINERAY and TOTAL.

The government of Pakistan has announced for the privatization of Pakistan state oil company Ltd.and it has been estimated that due to the privatization of PSO the foreign direct investment (FDI) is expected to increase in the next two years. The privatization commission of Pakistan is aiming upon selling about 51% equity stake of PSO and for that purpose an association led by Mr. Morgan is being appointed for the advising of the privatization commission on related financial issues. The Privatization Commission invites Expressions of Interest (EOI) from interested parties to acquire the indicated shareholding and management control in PSO.A pre-bid meeting of the privatization commission of Pakistan was held at Karachi in which three potential bidders Abu Dhabi Group of UAE, Al-Ghurair Group of UAE and Consortium of Al-Jomeih Group of Kingdom of Saudi Arabia and Al-Noor of Kuwait participated.

STOCK PRICES:

Stock Price (6/2/06): 317.00

Recent stock performances:

Week 1……….-4.5%

Week 2……….. - 9.3%

Week 13……… -24.5%

Week 52………-15.4%

MAJOR ACQUISITIONS

In recent times there is no significant acquisition made by the company.

DISCOUNTNUING OPERATIONS:

In 2000 years Pakistan state oil has discontinued operating nine subsidiaries.

MAJOR GROWTH:

Pakistan state oil has shown major growth in the year 2005 through opening around 3'800 retail outlets across the country including 1,250 new vision outlets commissioned within 6 years. Vast infrastructure of nine installations and depots from south to north and a supply chain supported by a strong tank-lorry fleet and railway wagons. The growth in lubricants, sales 16.6% as compare to industry growth which is 8.8%.In 2005 the company introduced Green XL Diesel and PSO Premier XL.

PROFITIBILITY:

Pakistan state oil's earning over the last five years nearly tripling from Rs. 2.2 billion to 5.7 billion, maximizing share holder value. HSD demand / FO demand representing 82% of total Pakistan oil production demand.

GROWTH OPTIONS:

Financial trends clearly show that there is enormous capacity of expansion and development not only in terms of finances but also for the operations of company. With the increasing demand of petroleum and oil and industry expansion company is heading towards a prosperous future.

BENEFITS TO SHARE-HOLDERS:

The dividend payment has increased 20% from Rs 13 in 2002 to Rs 26 in year 2005 .This is the major indication of the benefits to shareholder, besides this stock price in 2002 was Rs 140 which in 2005 rose to Rs 386.

COMPANY FUTURE:

The FY05 has been a prosperous year for the whole country due to sound economy and better economic policies, financial stability and consistency in political and regional growth. This significant betterment in the economy is also revealed through growth in oil industry through consumption of white oil, Mogas, HSD and JP-1

PRESS RELEASE:

Islamabad, April 30, 2006: The oil and gas regulatory authority (OGRA) has announced new prices of petroleum products for the fortnight w.e.f May 01, 2006.The prices of petroleum products in the international markets showed a record surge during the last fortnight which has compelled the GOP to pass on partial increase o consumers. However, in order to share the burden of the masses, the government would absorb half of the increase in prices of petroleum products by providing the petroleum products on subsidized rates.

As per the (OGRA) announcement on Sunday, the petrol prices have been raised from rupees 56.29 to 57.70 per liter. The rate of kerosene oil has been increased from rupees 32.87 to 35.23 per liter, while the diesel rate has been raised from 37.18 per liter 38.73 liter.

ANALYSIS OF PSO

ANALYZATION OF COMMON SIZE BALANCE SHEET

The base year for all the computations and analysis is 2002

Non-Current assets:

The following trends were observed in the non-current assets in analyzing the common size balance sheet of PSO.

As PSO is well established company so they have increased their property plant and equipment. In 2002, they had 12.21% which increased till 2004 i.e.17.97 but it decreased in 2005 but approximately two percent i.e.15.58%.This was because of their total increase in assets as compared to the previous years due to which % of total assets decreased. The company had tangible assets in 2002 and 2003 but no tangible assets in 2004 and 2005. This was due to the some storage and development projects, advances etc. The company intangible asset increased from 2003 to 2005 i.e. to 28%. It includes development of system application package (SAP) including the consultation charges that was under completion till 2003

The cost for the intangible asset has increased because of the additions that were made on the development project of SAP (computer software).The cost for this was however amortized.

The company has inventory held for capital expenditure in 2003 which was decreased in 2004.Thecompany had some capital stores in transit whose costs were decreased.

The company's long term assets had been varying to last 4 years. It increased from 3.44% in 2002 to 6.12% in 2003.This major increase was because of the fact that company agreed to acquire 12% equity interest holding in Parco representing the company's investment towards equity interest. (Note 18.2).It again decreased in 2004 and 2005 because of increased of total assets in 2005.

Long term loans incase of % of total assets decreased in 2004 and 2005 as compared to 2002-03.This was due to factors such as decrease in liability which include payment of cash, less employee advances in 2005(note 6.3) as compared to 2004.Also in Economic Co-ordination meeting, the company was advised through trade long term debt as long term receivable recoverable so KESC will be paying amounts in quarterly installments which decreased their liability in 2005. (note6.5)

Long term prepayments have been increasing with significant differences. This was basically due to increase in their rental payments consistently (note 7). Over all, the non current assets for the PSO shows varying trend i.e. increased in 2003 and then decreased in 2005.

CURRENT ASSETS:

The stores and spares for the PSO increased up till 2004 but decreased in 2005 i.e. .25%.This was due to the major decrease in their inventory in 2005...Both stores and spares decreased by large amount.

Stock in trade rose from 2002 to 2005 by larger amount as a % of total assets. This was due to the greater increase in the Parco pipeline system in 2005 and also no stock in trade was kept in trust in 2004-05 by Pakistan refinery and Shell Pakistan Limited. (Note 24.1)

Trade debt decreased to a large extent in 2004 and 2005.This was due to greater recovery of the receivables due from the customers. Also there were no changes in considered doubtful accounts for the year 2004 and 2005 but much amount was collected in 2005. (Note 11).

Loans and advances have been decreasing for the four fiscal years except for 2005.This was due to the greater advances to the suppliers and company owned filling stations. (Note 12).

Deposits, trade and short term prepayment have been showing a varying trend for the four fiscal years. It increased and then decreased and decreased. Increased because of greater trade deposits in 2003(note 26).also there were no leased in 2004-05.

Other receivables increased throughout the fore fiscal years and greater in 2004-05.The major reason were the credit payments. The increases in receivables such as on behalf of government of Pakistan such as price differential claims, on imports outstanding since 1991.Wapda receivables etc. (note 14)

Taxes recoverable are decreasing from the fiscal year from the fiscal year 2002-05.This is because provisions for stock in trade decreased in 2003.It was again high in 2004 but decreased in 2005.

Short term investments were consistent in 2002-02 but decreased in 2004-05.

This is because they had number of subsidiaries in 2002-03 but in 2004-05 their subsidiary investment decreased. So they had less investment. (Note 15, note 22,pso-03)

Their cash and cash balances have been decreasing. Cash in hand and cash in bank had been fluctuating.

EQUITY

Share capital increased in 2003 but decreased in 2004 and 2005.The share capital itself is same the three consecutive years but do change in the percentage of total assets, their value is decreased.

Reserves increased initially but decreased later. The capital have been same (note 19).There was no dividend equalization in 2005 .but unrealized gain increased in 2005.

LIABILITIES

NON-CURRENT LIABILITIES

Long term deposits as percentage of assets kept fluctuating throughout the year. There was increase   in catage contractors deposits (note 8.3).These are interest payable deposits. They were high in 2004 and still high in 2005 because of greater unappropriated profit in 2005.There was no liabilities against financial lease in 2004-05.In 2003, the liabilities subject to financial assets were paid completely in 2003. (Note 6).As they paid the last balance of the 2002 and also the balance of that year

CURRENT LIABILITIES

There were no trade and other payables in 2004-05.In 2004-05 trade and other payables were pretty consistent. There was no interest or accrued mark up in 2002-03.The interest and trade mark up increased in 2005.Short term borrowing were pretty same in 2002 and 2004.But showed variation in the other two. This was due to the fact that there were no short term finances in 2003. (Note 9).The values were pretty same in year 2004-05.The current portion of short term loan remain throughout consistent except in 2005, there was no current portion of short term loans. There were no liabilities against financial lease in 2004-05.The balance on July 01(note 6) decreased in 2003.Creditors accrued and other liabilities were pretty same in 2002-03 but there were no in 2004-05.Government taxes and other dues decreased in 2003 like exice, sales control (note 10).There was no particular tax payable in other years except 2005.No dividends were announced in 2005 and 2004 but dividends were announced in 2002 and 2003.

Dividends and proposed dividend final increased in 2003.This increased the dividend in 2003.

INCOME STATEMENT

The base year has been taken as 2002 which is considered as fiscal year 1.

Sales have increased from FY3 to FY4.

The **Cost of Goods sold** increased from FY03 to FY04. This was due to an overall increase in sales volume.

Operating expenses specifically marketing and distribution expenses due to an increase in New Vision Retail outlets, sales promotion campaigns etc. Depreciation expense has also increased.

Other operating income has decreased from FY03-FY04. This decrease mainly was due to decrease in dividends receivable from related parties and a decrease in income from retail outlets.

Finance cost has increased from FY03-FY04 because of an increase in markup on short term borrowings and financial charges on leased assets.

Profit after taxation increased by 35% of FY3, the highest ever recorded. It resulted in increased earnings per share.

Income Statement trends

Sales and Profitability

In FY03 the country experienced an unusual trend which was a decline in sales volume. SOF Saudi Oil facility since 1998 after the nuclear test provided 100,000 barrels of crude oil daily free of cost. The termination of this facility in 2004 led to a decline in sales volume of oil eventually affecting the sales volume of PSO. The decline in the demand for furnace oil in the country affected PSO the most as it has the largest shares for furnace oil in the country. This decline in sales couldn't be balanced by other product sales due to the presence of competitors. According to a daily times report on 15th January 2004, this decline was due to "increased gas availability to the power sector, and the reduction in market share as ICI emerged as a strong player in this industry"**.** This decline in sales was later compensated for by an increase in sales from 107% of the base year FY1 to 139% in FY4. The Furnace Oil sales rose by 33.8% from FY3.

The maximum profit from the subsidiary companies has come from Petro Chemical Pvt limited that is of Rs.35970700 and the other came from the subsidiary named Auto Oils (Pvt)

Because of the decline in sales and profits in FY3, other components were also affected. **Cost of Goods sold** and **operating expenses** decreased as a result. In FY4 there was a comeback, where Profit before tax was the highest in history of Rs 9.2 billion. The addition of 250 leased retail outlets, increase in CNG facilities and introduction of Data Visualization Centre and Field Automation system and Pump Control System all led to an increase in sales and profit.

Other operating income has increased till FY3 and then decreased in FY4.the reasons were mentioned in the % change statement of the FY4 and FY3 respectively.

Note:

From the 9 subsidiary companies that are going to be liquidated therefore no consolidated accounts have been prepared for those companies. 4 companies would be liquidated in 2006.

PSO COMPONENT % of income statement

The component percentages are calculated using the sales as a base. This shows the contribution in % each component has made on the sales.

Cost of goods sold has covered more than 78% of the sales in both FY3 and FY4 followed by sales tax. Gross profit component has increased from 4.71 in FY3 to 5.42 in FY4.

Other operating expenses as a percentage of sales have also increased from 0.26-0.37 mainly due to provisions that had been made against doubtful trade debts and claims on receivable.

Finance cost component had also increased.

CASH FLOW STATEMENT

Cash flow from operating activities

Cash has increased 47.3% due to increase in sales volume and revenues. Accounts receivable has increased from Rs. 0 to Rs.4374000. Dividend income has decreased by 31.6% because of the decrease in dividends from related parties that are Asia petroleum Pak grease manufacturing company.

The finance cost has increased by 57% due to increase in mark -up on short term borrowings and bank charges. Inventory has decreased by 15.7% due to greater sales.

Trade debts have decreased by 45%. The short term prepayments have decreased because of the decrease in pension and provident fund.

Cash in flow from operations has increased by 89% due to increase in sales volume and revenues along with better management to cut the administration costs to minimum.

Cash flow from investing activities

Fixed capital expenditure has decreased by 28.10% because of the disposal of tanks and pipelines, vehicles and other rolling stock, office equipment and gas cylinders/regulators. Sales of fixed assts have increased because they have disposed off more assets than in previous year. The overall cash outflow from investing operations has increased by 28.6%.

Cash flow from financing activities

Prepayment of long term loan has not changed while payment on assets subject to financial lease has been zero because all leases were paid in previous year. Dividends paid have increased by 25% as company have issued 25% bonus shares along with dividend of Rs.35 same as of previous year indicating the increase in the profitability of the company.

Net cash outflow has decreased by 399% as expenditures have decreased and revenues have increased .This has led to increase in cash and cash equivalents 221%.

This shows the strong financial position of the company.

Trend analysis

Operating activities

The cash has increased by 179.56% (2005) from 100% in 2002. The dividend income has increased to 288.2% in 2004 but declined to 196.9% in 2005 due to the decrease in dividends from related parties that are Asia petroleum Pak grease manufacturing company. The finance cost has decreased from 2002 to 2004 but then has increased in 2005 due to increase in mark -up on short term borrowings and bank charges.

Inventory decreased in 2003 and 2005 due to greater sales and was only increased in 2004 due to greater purchase than sales. The short term prepayments have decreased over the years but a considerable trend was seen in 2005 due to the decrease in pension and provident fund. The cash inflow in 2003 has increased but decreased in 2004 due to decrease in sales volume and prices of the oil but then it increased in 2005 due to greater sales volume.

Financing activities

The fixed capital expenditure has increased till 2004 but decreased in 2005 due to the disposal of tanks and pipelines, vehicles and other rolling stock, office equipment and gas cylinders/regulators. Sales of fixed assts have increased because they have disposed off more assets than in previous year. The overall cash outflow from investing operations has increased by 28.6%.

Investing activities

Prepayment of long term loan has not changed and assets subject to financial lease have decreased over the years and have become zero in 2005.
Dividends paid have increased over the years due to the greater percentage dividend from 130% in 2002 to 260% in 2005.
Net cash outflow has decreased as expenditures have decreased and revenues have increased .This has led to increase in cash and cash equivalents.

Statement of changes in equity

The base year for all the computation and analysis is 2002 other wise stated.

Earnings Per share

The earnings per share have increased due as the net income has increased from Rs.3188 million in 2002 to Rs.5689 million in 2005 .This is because of a considerable increase in sales and operations of the company.

Price Earnings Ratio

The price earnings ratio has increased over the years from 7.5 in 2002 to a double digit figure of 11.6 in 2005 despite considerable increase in earnings per share. This was due to higher stock prices of the company.

Book Value per share

The book value per share decreased in 2003 to Rs. 82.93 against Rs. 90.93 in 2002 due to issuance of 29 million additional shares and in 2004 as the total stock holders equity hasn't increased in proportion with increase in no. of shares of outstanding but this book value jumped up to Rs100.65 in 2005 from Rs.89.80 in 2004.

Dividend Yield

Dividend yield has shown a declining trend although there has been an increase in dividends over the year from Rs. 13 in 2002 to Rs. 26 in 2005 but the current stock price has sky rocketed from Rs. 140 in 2002 to Rs. 386 in 2005. This speaks volume of the strong financial position of the company.

Return on Equity and Return on Common Stock holders Equity The return on equity and return on common stock holder's equity has shown similar trends as the company has not issued any preferred shares. The trend in both has increased despite the issuance of 29 million shares in the market but net income rose by Rs.842 million but in 2004 the ROE and ROCE decreased as the increase in net income was very less as compared to increase in average total equity. The ROE & ROCE again showed an up ward trend when net income rose by 1478 million.

Financial Analysis of Royal Dutch\Shell Pakistan

CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operations were highest in 2003 rupees 4,803,157 and showed a decline onwards from2004 rupees 887,035 to rupees 705,132. In year2005 the cash generated from operations there was, significant increase long –term deposits and prepayments which is 161%. Receipts of interest have declined from previous years the figures in year2005 shows a decrease of 65%. Apart from receipts there is a clear increase in payments. This is the main cause of declining trend in cash generation. The major payments among all are mark-up on short-term finances 2023% and there is an outflow of long-term loan and advances of 149%. There is an increase in tax payment of 21%.Overall the cash inflow from operating activities has decreased by 21% from the last year.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash flows from financing activities shows in 2005 there is decrease in the payments for fixed capital expenditure of 27%.The cash from the sale of property plant and equipment has decreased by 37%.The net cash outflow from investing activities has declined by 27%.The reason behind this decline in investment is that , In 2004 they have invested a lot in Air-conditioning plant , Rolling stock and vehicles, furniture office equipments and assets, computer software and consultancy costs and capital stores and spares where as they have not invested much in the year 2005.The overall net cash outflow from investing activities has decreased by 27%.

CASH FLOWS FROM FINANCING ACTIVITIES

In year 2005 the payments of dividends has increased by 14%. In addition to this the management has given 25% bonus shares, this shows strong financial position and the profitability of the company. The repayment of liabilities under finance lease has decreased by 18%, as the portion of liability has decreased so

the percentage change has also decreased which is not of much concern. Net cash outflows on financing activities
has increased by 112% because as mentioned above the payment of dividends and liability has increased .The cash and cash equivalents has increased by 9% due to the profitability. The interest rate has increased from 1.5% to 2%.

Analyzing Shell's common size Balance sheet

Shell Pak Limited is a well established company. It is quite evident from its financial statements. Every year, its performance goes on improving and there is an incremental trend in revenues generation.

Non-Current assets

Beginning with its fixed assets, there is a decrement each year starting from 38.0 in 2002 to 27.4% in 2005. Shell Pak Ltd has invested much in Long term investments. Their Long term investments have greatly increased in 2003 from 0.7 to 14.2% of total assets. In 2004-05, there started a slight decrease in their Long term investments dropping to 9.2% in 2005. Each year, there is a bit decrease in Long term loans & advances. So we can say that the Total Long term assets of the company greatly increased in 2003 and keep on declining in 2004-05.

Current assets

Stores & spares of the Shell increase in 2003 and keep on declining in 2004-05. Stock in trade decrease in 2003 and keep on increasing in 2004-05. Trade debts are increasing every year. Other receivables of the Company decreased in 2003-04 which shows that the company preferred cash business rather than credit. A large increase in other receivables in 2005 makes it clear that the company increased its credit sales. The Cash and cash balance increase in 2003 and drop to constant ratio in 2004-05. Hence the Total current assets of Shell Pak Ltd decreased in 2003 to a large extent and kept on increasing in 2004-05.

Current liabilities

Short term running facilities utilized under markup arrangements increase in 2004-05 from 9 to 16.8% of total assets. Creditors, accrued & other liabilities keep on decreasing from 2003-05. It shows that the company's financial health is improving so it's lowering its liabilities. Markup accrued on its liabilities is also increasing from 2004 onwards. Its high tax rate in 2005 speaks of its increased profit.

Long term liabilities

Liabilities against assets subject to finance lease have decreased 2003 onwards.

Decrease in the liabilities of Shell Pak Ltd show that the company is getting profitable with the passage of time and its reliance on borrowing is decreasing because the company is producing much cash itself.

Share holders' equity

The Share capital and Reserves of the company keep on declining but its Unappropriated Profit (retained earnings) increase from 2002-04 except a bit decline in 2005.

<u>Analyzing Shell Balance sheet's Trend Percentages</u>

Non-Current assets

The fixed assets show an increment each year from its base year. Long term investments of Shell Pak have increased by a very large percentage (2128%) which shows that the company cash position is becoming strong. The company is also reducing its long term loans and advances because it's using that cash in Long term deposits and prepayments. Hence the total long term assets of the company are increasing each year with a remarkable increase in 2003.

Current assets

Stores and spares increased in 2003 by more than 200% and kept on declining a bit in 2004-05. Stock in trade keeps on increasing from 2003 onwards. This means that the company is expanding its business so it has purchased more inventories. Trade debts kept on increasing form 2003 onwards with a noticeable increase in 2005. Since 2004 the company has tried to reduce its loans and advances. Other receivables decreased in 2003, increased a bit in 2004 with a very noticeable increase (279.2%) in 2005. This shows that as compared to 2002- the base year- the company has greatly increased its credit sales Hence total current assets have been increasing since 2004

Current liabilities

Current maturity of liabilities against assets subject to finance lease after a decrease in 2003 has increased in 2004 & slightly decreased in 2005. Creditors, accrued & other liabilities have increased every year because of the expansion in the business. Markup accrued has also increased in 2005. The tax liability has greatly increased in 2005 due to high profit earned.

Long term liabilities

Liabilities against assets subject to finance lease Shell (Pakistan Limited has entered into lease agreements with various leasing companies for the lease of motor vehicles, including tank Lorries, fork lift trucks, mobile training units, transport vans and Compressed Natural Gas (CNG) equipment. The liabilities under these agreements are payable by the year 2008 (2004:2008) and are subject to finance charge at rates ranging from 5.5 to 17.27 percent per annum (2004: 5 to 20.33 percent per annum). This liability is maximum in 2003 and goes on decreasing in 2004-05 because the company intended to exercise its option to purchase the leased assets for Rs 8.284 million (2004: Rs 12.722 million) upon completion of the lease periods.

Share holders' equity

Share capital and Reserves remain the same from 2002 through 2005 but its unappropriated profit (retained earnings) increased ever year with a slight increase in 2003 followed by remarkable increases in 2004 and 2005. Hence it's crystal clear that Shell Pak Ltd is an extremely profitable company whose liquidity increases from year to year and would even improve in future.

<u>Statement of changes in equity of Shell</u>

Earnings Per share

The earning per share has increased over the years as the company has been very profitable and its net income has increased over the years from Rs.1003 million in 2002 to RS.2460 million in 2005.

Price Earnings Ratio

The Price earnings ratio was highest in2003 as the earning s per share was lower Rs.35.80 and the stock price was higher and the stock price was Rs.422 but in 2004 the stock price fell and earnings per share increased causing a decrease in price earnings ratio and despite greater increase in stock price the price earnings ratio fell in 2005 due to greater increase in earnings per share of the company**.**

Book Value per Share

The book value per share have increased over the time from Rs.28.57 in 2002 to Rs.70.11 in 2005 as the stock holders equity grew due to the posting of higher profits in the preceding years and the share of common stock outstanding remaining constant.

Dividend Yield

Dividend yield has increased from 2003 tom 2004 as the stock prices felled and dividend was of same Rs.35 as was in 2003. The dividend yield decrease in 2005 despite the giving of Rs.35 dividend due to greater increase in the stock price. Shell declared and additional 25% stock dividend (bonus shares) in 2005.

Return on Equity and Return on Common Stock holders Equity

The ROE & ROCE have shown increase over the years due to increase in net income as the stock holder's equity increased parallel to it, except for year 2004 when net income was not in proportion to increase in stockholders equity but this was a very minor increase of only 0.30%

INCOME STATEMENT ANALYSIS

The income statement analysis of Shell Pakistan has been considered when rationalizing the profitability ratios of the two companies.

RATIOS

LIQUIDITY RATIOS

Current ratio

The current ratio for the PSO had been consistent throughout the past four years with slight variation from 1.20 to 1.25 in 2003 other wise same in the other two years i.e. 1.24-1.25..This shows that the company for the bankers and short term creditors is a good credit risk. The company ratio is close to 1 showing that receivable and inventory conversion inventory into cash is good relative to their payables.

Operating cycle

The operating cycle of PSO is has increased from FY2. It is taking more time in converting into cash, as they have a larger inventory compared to Shell.
Shell's operating cycle has decreased in FY3 but has increased in FY4
Analyzing the two components of the operating cycle, it is noticed that

In the receivable turnover ratio, for PSO, the average receivables have increased over time caused the ratio to decrease. This increase is caused because of the price differential on claims from GOP in order to keep prices at a subsidized rate for consumers. This grant has amounted to Rs. 3386 million since 1991. For Shell, the receivable turnover ratio has increased till FY3. In FY4 there has been a sharp decline in the ratio, this was due to the increase in receivables from oil marketing companies, and the increase in sales tax rebate on exports.

The second component of operating cycle is the average inventory turnover.

For PSO, The inventory turnover has increased till FY2 which was due to a decrease in stock in tradeoff petroleum and other products matched by an increase in net sales. The ratio then rapidly decreased by 6.6 times in FY3 and dropped further by 2 times in FY4.The drop in the ratio in FY4 was due to the stock in transit of 3 companies and in the PAPCO pipeline system.

For Shell, the ratio increased till FY3 and then decreased in FY4 as the stock in trade of raw and packing materials in FY5 and the finished goods in white oil pipeline.

Working Capital

The working capital continued to soar for PSO but for shell there had been a fluctuating trend. The working capital became negative in FY2 and further in FY3. The interest received on short term investments was a major factor decreasing the current assets. Moreover the current liabilities subject to assets against financial leases for different vehicles (mentioned before) increased which led to a negative value of working capital

Profitability ratios

Gross profit ratio

The gross profit ratio is increasing for both the companies in the past 4 years but PSO has a lower GP ratio compared to Shell as it has approximately 100,000,000 sales more than Shell as PSO has a larger market share.

Net profit ratio

Although PSO net profit ratio seems to be higher than Shell, there is not a major difference in the ratios of the two companies in the year 2005.the PSO ratio being 2.68 and Shell ratio 2.49respectively.shell’s profitability increased because of the launch of “new Shell petrol” and increase in the number of CNG stations by 6 to cater the high demand.

Operating expense ratio

There has been a fluctuating trend for this ratio. PSO’s operating expense ratio increased unto fiscal year 3, but decreased by a little margin in FY4.in FY4 the operating expense ratio is 2.56.This shows that for every 100 rupee of sale their operating expense is 2.56.

Shell on the other hand, has a higher operating ratio compared to PSO due to lesser sales but from FY3 the ratio started decreasing. The administrative expenses decreased in FY3 due to decrease in rent, tax and utilities along with decrease in computer expenses. However, the expense increased in FY4 to an increased spending in advertising, depreciation on tangible assets. Furthermore expenses in technical services also increased.

Operating income

For PSO, operating income increased from F1-FY2 .in Fiscal year 3 operating income decreased by 1575163 Rs, due to a decline in sales volume. This loss in operating income was compensated in FY5 by a rapid increase in sales and hence gross profit, resulting in an increase of 11016064rps from FY3

Shell’s operating income increased by 2,647,361,000 from FY1-FY4

Long term credit risk

Interest coverage ratio

PSO interest coverage ratio improved from FY1 –FY3. In FY4 it decreased because of an increase in the charges for leased assets and the markup on short term borrowing.

For Shell, there has been a major decline in the interest coverage ratio from 32.5 in FY3 to 12.78 in FY4 and was due to the short-term financing from Muslim Commercial Bank. When considering the trend analysis, financial charges in FY4 are 707.8% of that in FY1.

In FY1 and FY2, Shell's interest coverage ratio was more than PSO which meant that it was better in covering its interest expense.

Debt Ratio

The debt ratio for the PSO has been consistent except decline from 65% to 58% in 2003.Again it raised to 63% in 2004 and 66% in 2005.Sice it's a measure of long term creditors risk, this was basically because of the fact that in long term liabilities, they had no liability against assets subject to financial lease in 2003, and in short term, the current portion of the amount was also decreased so total liabilities decreased which decreased their debt ratio.

Names	Work Distribution
Abbas Kazim Shah	Analysis of Balance Sheet statement of Shell, graph making, formatting, Industry analysis
Afsheen Afzal	Analysis of Cash flow statements of Shell, literature review, Executive summary
Faisal Khurshid	Analysis of statement of equity of Shell and PSO, Industry analysis, analysis of ratios
Mehr Hyder	Analysis of Cash Flow statements of Shell, Executive summary, introduction
Sadaf Mansoor	Analysis of Profit and Loss account of Shell and PSO; calculation and analysis of ratios.
Zeeshan Ahmed	Analysis of Balance Sheet of PSO, Introduction, Industry analysis, Company profile.

PSO (COMPANY PROFILE)

Pakistan State Oil (PSO) is the oil market leader in Pakistan enjoying 79% share of Black Oil market and 58.3 share of White Oil market. It is engaged in import, storage, distribution and marketing of various POL products, including Gasoline, Diesel, Fuel Oil, Jet Fuel, Kerosene, LPG, CNG and petro-chemicals. This blue chip company, the winner of “Karachi Stock Exchange Top Companies Award” for ten consecutive years and a member of World Economic Forum, has been a popular topic of case studies in Pakistan and abroad based on its radical corporate turnaround over the last few years. It has been blue –chip organization with market capitalization of around 66.2 billion (US$ 1.1 billion contributing US$ 651 million to the national exchequer. The earnings have been tripled from 2.2 billion in the last five years to 5.7 billion.

PSO serves a wide range of customers throughout Pakistan, including retail, industrial, aviation, marine and government/defense sectors. It has vast infrastructure of 9 installations and 23 depots from south to north chain, around 3800 retail outlets across the country including 1250 new vision outlets commissioned within 6 years. PSO ‘s state of art New vision outlets are equipped with most modern facilities including auto car wash, electronic dispensing units, convenience stores ,business centers and internet facilities.

PSO in Pakistan was the first to introduce the environmental-friendly diesel which contained green burn combustion technology like 27%less smoke, more power longer engine life, efficiency and clear environment

As innovative customer service initiatives, PSO has launched Loyalty Card, Corporate Card and Fleet Card. The technology driven hi-tech family cards fulfils the individual fuelling needs of each segment of the target market maximizing flexibility, convenience security and savings.

It has also introduced PSO Lipton campaign on prepaid cards with UBL on PSO.

PSO has been sponsoring events like Expo Pakistan 2005, idea 2004 and other co-curricular activities going around the country. The company has all over online management system. PSO is the first company in Pakistan to introduce the ‘’ Hanging Dispensing Units’’ in Pakistan..

For efficient handling of customer complaints, queries and suggestions, PSO has developed Customer Service Centers at all its 12 divisional offices. Furbished with a toll free telephone number (0800-03000) and automated customer feedback registration system, these centers provide an efficient system of 24-hour customer care. An attractive and comprehensive PSO website (www. psopk.com) is available as a source of PSO-related news and information.

Appendix

- Gross profit rate:
- Gross profit ⁄net sales

- Net Profit ratio:
- Net profit ⁄net sales

- Return on Stock Holders Equity:
- Net income/av.total equity

- Operating expense ratio:
- Operating expenses/net sales

- Operating income :
- Gross profit- operating expense

- Receivable turnover ratio
- Net sales /av.accounts receivable

- Inventory turnover ratio
- Cost of goods sold/ av.inventory

- Days to sell average inventory
- 365 days/inventory turn over rate

- Days to collect av. Inventory
- 365/receivable turn over ratio

- Interest coverage ratio
- Operating income/annual interest expense

- Current ratio
- Current assets/current liabilities

- Working capital:
- Current assets-current liabilities

- Net cash provided by the operating activities
- Appears in the statement of cash flows

- Free cash flow
- Net cash from the operating activities-cash used for the investing activities and dividends

- debt ratio
- total liabilities/total assets

- Dividend yield
- Annual dividend/current stock price

- Earnings per share
- Net income-Preferred dividends/ Average number of common shares outstanding

- Return on equity
- Net income

- Price earnings ratio
- Current stock price/earnings per share

- Book value per share
- Common stock holders equity/ Shares of common stock outstanding

- Quick ratio
- Quick assets/current liabilities

http://www.mpnr.gov.pk/ocac.php
http://www.pakboi.gov.pk/Policies/petroleum_policy_.html
http://www.cng.com.pk/about.htm
http://www.ocac.org.pk/shell.html