

Shahmir Khan  
shahmir.khan@akseerresearch.com

8 October, 2024

## PSO's bailout: First sign of the circular debt resolution

The year-end marked a significant improvement in cash flow with an average recovery ratio of 102% in the 4QFY24. Circular debt accumulation plummeted from PKR 21.8bn/month (1HFY24) to PKR 0.5bn/month for (2HFY24) due to gas price adjustments in Nov-23 and Jan-24. This limited the revenue shortfall to PKR 134.2bn, compared to OGRA's estimates of PKR 171.2bn for FY24.

The improved recovery was reflected in declining trade receivables, with PSO reporting a reduction of PKR 35.86bn followed by PPL (PKR 4.5bn), MARI (PKR 0.9bn), while OGDC's receivables increased by PKR 8.2bn. In our opinion, the severe liquidity crunch being faced by PSO led to a significant diversion of cash flows to the company. However, we believe E&Ps will continue to remain the prime contenders to receive the major chunk of the surplus in the system going forward.

At the current run rate of payments, the surplus is projected at PKR 132.5bn for FY25, compared to OGRA's determined surplus of PKR 78.9bn. Although the recovery rate shows promise, it does not account for the seasonality of low value consumption (peaked domestic consumption in winter), making it an inaccurate measure for the annual quantum. In addition, OGRA's proposed suspension of supply to captive power plants — forecasted at 83,785 BBTU (221 MMSCFD) for FY25 — poses a major risk to OGRA's estimated revenue surplus.

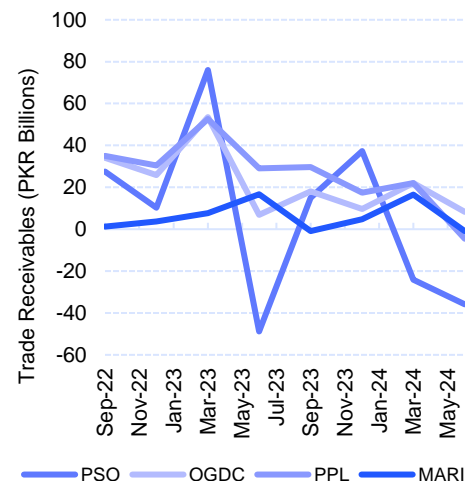
These developments necessitate the evaluation of three offsetting scenarios:

1. Raise gas prices across all consumer divisions (+9.92%) – (Impact: PKR 0)
2. Shift offtake to gas-powered IPPs (@ PKR 1,050/MMBTU) – (Impact: -PKR 15.6bn)
3. Shift offtake to RLNG-based IPPs (@ PKR 3,788/MMBTU) – (Impact: +PKR 2.1bn)

\*The impact of these scenarios is based on 30% of the total captive power capacity being phased out in 2HFY25

In light of the current developments, we expect the revenue surplus to settle at PKR 71.5bn for FY25.

OGRA is also considering a move from the standard biannual revenue requirement determination to a quarterly revenue requirement estimation mechanism. Timely implementation of this change is expected to minimize the lag in tariff differential, thereby curbing further additions to the circular debt stock.



Source: Company Accounts, Akseer Research

Consumer Prices (PKR/MMBTU)	Jan '23	Nov '23	Feb '24	July '24
General industry (Captive)	1,600	2,500	2,750	3,000
Power including IPPs	1,050	1,050	1,050	1,050

Source: Company Accounts, Akseer Research

Recovery Ratio	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
PSO	97.8%	86.0%	109.8%	97.1%	93.2%	104.6%	107.3%
OGDC	95.0%	90.6%	98.8%	97.0%	98.4%	96.5%	98.7%
PPL	92.9%	89.1%	94.3%	94.5%	96.9%	96.2%	100.8%
MARI	90.2%	82.8%	73.0%	101.4%	92.8%	79.9%	101.1%

Source: Company Accounts, Akseer Research

## Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

## Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

## Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

## Research Dissemination Policy

The JV endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

## Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

## Contact Details



Akseer Research (Pvt) Limited  
1st Floor, Shaheen Chambers, KCHS block 7 & 8,  
off. Shahrah-e-Faisal  
T: +92-21-34320359 -60  
E: [info@akseerresearch.com](mailto:info@akseerresearch.com)



Alpha Capital (Pvt) Limited  
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,  
KCH Society, Block 7 & 8, Near Virtual University, Karachi  
T: +92-21-38694242  
E: [info@alphacapital.com.pk](mailto:info@alphacapital.com.pk)



[www.jamapunji.pk](http://www.jamapunji.pk)