

PSO: 1QFY22 EPS expected at PKR 21.5, up 96% YoY

- PSO's board meeting is scheduled on October 28, 2021 to consider 1QFY22 financial results. We expect the company to post almost doubled EPS of PKR 21.5, as compared to an EPS of PKR 10.96 during SPLY, driven by higher volumetric sales and inventory gains.
- The company's net sales are expected to settle at PKR 428bn, up 53% YoY mainly due to higher product prices and volumetric sales during the quarter.
- PSO's overall volumetric sales grew by 23% YoY in 1Q. FO sales increased by 66% YoY whereas HSD/MS sales surged 26%/21% YoY respectively.
- The company also managed to regain its lost market share in retail fuels (HSD and MS) which stood at ~47%, during the quarter compared to 45.2% in the preceding quarter and 45.3% in SPLY.
- Operating expenses are likely to go up by 51% YoY in line with sales and settle at PKR 6.5bn. Similarly, finance cost is also expected to increase by 106% YoY to PKR 1.8bn due to higher short-term borrowings; however, surge in other income by 137% YoY to PKR 2.9bn is likely to cover up for the burgeoning financial charges.
- On sequential basis, PSO is expected to post earnings decline of 7% QoQ mainly attributable to 79% QoQ slump in other income due to absence of hefty late payment surcharge.
- We have a 'BUY' stance on the script with the Jun-22 PT of PKR 337/share. Our price target indicates an upside of 85% along with a dividend yield of 7%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	337
Current Price (PKR)	183
Upside/(Downside) (%)	+ 85%
Dividend Yield (%)	7%
Total Return (%)	+ 91%
12-month High (PKR)	262
12-month Low (PKR)	178
Outstanding Shares (mn)	469
Market Cap (PKR mn)	85,748
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY21	1QFY22E	YoY	4QFY21	QoQ
Net Sales	280,765	428,561	53%	351,286	22%
Cost of Sales	269,269	407,924	51%	334,416	22%
Gross Profit	11,496	20,636	80%	16,869	22%
Operating Expense	4,350	6,564	51%	5,175	27%
Other Income	1,236	2,924	137%	13,674	-79%
Finance cost	859	1,766	106%	7,741	-77%
Profit Before Tax	7,676	15,375	100%	16,882	-9%
Taxation	2,532	5,285	109%	5,985	-12%
Net Income	5,144	10,091	96%	10,897	-7%
EPS	10.96	21.49	96%	23.21	-7%
DPS	0.00	0.00		10.00	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	22.6	-13.8	62.1	42.6	36.8	42.2
EPS Growth	-32%	NM	NM	-31%	-13%	15%
DPS	10.0	0.0	15.0	12.0	11.0	14.0
PER	8.1	NM	2.9	4.3	5.0	4.3
Dividend Yield	5.5%	0.0%	8.2%	6.6%	6.0%	7.7%
EV/EBITDA	6.9	NM	3.5	3.6	3.3	2.3
P/B	0.7	0.8	0.6	0.6	0.5	0.5
ROE	9.2%	-5.6%	23.0%	13.6%	10.8%	11.4%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Pakistan State Oil (PSO) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0%.

Investment Thesis

We have a 'BUY' stance on the script with the June-22 PT of PKR 337/share. Our price target indicates an upside of 85% along with a dividend yield of 7%. Our investment case on PSO is based on 1) Increase in volumetric sales owing to uptick in demand post pandemic, 2) Improving market share and 3) Decline in borrowings resulting in lower finance cost.

Risks

Key downside risks to our investment thesis are: 1) sharp decrease in oil prices, 2) significant loss of market share to other industry players & 3) further accumulation of circular debt.

Company Description

Pakistan State Oil Company Limited engages in the procurement, storage, distribution, and marketing of petroleum and related products in Pakistan. The company offers motor gasoline, furnace oil, jet fuel, kerosene, compressed natural gas (CNG), and liquefied petroleum gas.

Financial Highlights - PSO

Income Statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	1,340,978	1,302,037	1,424,249	1,851,815	1,721,103	1,705,158
Net Sales	1,154,298	1,108,358	1,204,247	1,572,258	1,459,302	1,445,127
Cost of Sales	1,118,281	1,096,131	1,149,638	1,518,818	1,413,640	1,394,678
Gross Profit	36,017	12,227	54,609	53,440	45,663	50,449
SG & A	13,656	11,948	13,691	22,131	20,613	20,463
Operating Profit	22,361	279	40,919	31,310	25,050	29,986
Other Income	543	921	1,616	1,227	1,307	1,406
Financial Income	3,866	6,924	12,662	6,924	6,924	6,924
Finance Cost	8,987	13,427	10,242	7,065	6,558	6,494
Profit Before Tax	17,477	-5,134	44,056	32,395	26,723	31,822
Taxation	6,890	1,332	14,917	12,407	9,430	12,008
Profit After Tax	10,587	-6,466	29,139	19,988	17,294	19,814

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	7,113	11,522	13,166	16,161	19,306	22,608
Other LT assets	25,741	38,089	38,131	36,751	38,919	41,298
Non-Current Assets	32,854	49,611	51,297	52,912	58,224	63,906
Current assets	384,225	293,261	327,962	404,907	391,067	395,711
Total Assets	417,080	342,872	379,260	457,819	449,291	459,616
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	296,156	275,352	272,285
Total Liabilities	297,899	229,811	239,281	303,486	282,829	279,912
Equity	119,181	113,061	139,978	154,333	166,463	179,704
Total Equity & liabilities	417,080	342,872	379,260	457,819	449,291	459,616

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	19,988	17,294	19,814
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	56,913	27,936	27,699
Investing Cash Flow	-12,498	50,920	18,750	58,344	25,335	24,307
Financing Cash Flow	17,351	-40,345	-11,310	17,217	-5,285	-663
Net change in cash	1,815	-1,067	490	66,343	16,005	19,795
Beginning Cash	-43	-722	-1,732	60,710	10,841	13,223
Closing cash	4,593	3,872	2,139	62,849	73,690	86,913

Source: Company Accounts, Akseer Research

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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.

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