

PSO: 1QFY22 net earnings at PKR 25.55/share; up1.3x YoY

- PSO announced its 1QFY22 financial results today, where the company reported an EPS of PKR 25.55, up 1.3x as compared to an EPS of PKR 10.96 during 1QFY21, driven by higher volumetric sales and inventory gains during the quarter.
- The company recorded its net sales at PKR 459.2bn, up 64% YoY primarily due to volumetric growth and higher product prices.
- PSO's overall volumetric sales grew by 34% YoY in 1QFY22. FO sales increased by 65% YoY whereas HSD and MS sales surged 26% and 21% YoY, respectively. This growth is mainly due to resumption of economic activities.
- PSO regained its retail fuel (HSD and MS) market share by 1%/2% compared with same period last year and quarter respectively.
- Other income grew by 44% YoY during 1Q to PKR 1.8bn due to late payment surcharge received by the company.
- Operating expenses arrived at PKR 5.5bn for 1Q, up 27% YoY whereas, the finance cost declined by 27% YoY due to possible reduction in the borrowing.
- On sequential basis, PSO posted an earnings growth of 10%. This can mainly be attributed to 15% QoQ growth in MS volumes, and massive upside of 126% in FO sales due to high energy sector demand.
- 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)	193
Upside/(Downside) (%)	+ 85%
Dividend Yield (%)	7%
Total Return (%)	+ 91%
12-month High (PKR)	262
12-month Low (PKR)	182
Outstanding Shares (mn)	469
Market Cap (PKR mn)	108,581
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Sales	280,765	459,224	64%	351,286	31%
Cost of Sales	269,269	437,170	62%	334,416	31%
Gross Profit	11,496	22,054	92%	16,869	31%
Operating Expense	4,350	5,525	27%	5,175	7%
Other Income	1,236	1,786	44%	13,674	-87%
Finance cost	859	626	-27%	7,741	-92%
Profit Before Tax	7,676	17,802	132%	16,882	5%
Taxation	2,532	5,808	129%	5,985	-3%
Net Income	5,144	11,994	133%	10,897	10%
EPS	10.96	25.55	133%	23.21	10%
DPS	-	-		10.00	

Source: Company Accounts, Akseer Research

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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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