

Pakistan State Oil Company Limited

Result Preview

PSX: PSO Bloomberg: PSO: PA Reuters: PSO. KA

Pakistan Research

2QFY22 EPS to clock in at PKR 28.6, up 2.1x YoY, DPS at PKR 5.0

- PSO's board meeting is scheduled on February 11, 2022 to consider 2QFY22 financial results. We expect the company to report an EPS of PKR 28.6, up 2.1x YoY, driven by higher product prices, increase in volumetric sales and inventory gains during the quarter. This will take 1HFY22 earnings to PKR 54.2/share, up 1.7x YoY. Along with the result, PSO is expected to announce an interim cash dividend of PKR 5.0/share.
- The company's net sales are likely to grow by 60% YoY to PKR 457bn primarily due to 14% YoY increase in HSD sales and 13% YoY increase in MS sales. Similarly, higher POL product prices on YoY basis will also support the topline growth. In addition, we expect gross margin to clock in at 4.8% during 2Q compared to 3.1% in SPLY owing to inventory gain.
- Operating expenses are likely to decline by 12% YoY at PKR 4.5bn during 2Q, whereas the finance cost is expected to go up by 62% YoY to PKR 939mn due to higher interest rates. On the contrary, 12% YoY higher other income at PKR 3.6bn is likely to support earnings growth.
- On a sequential basis, PSO earnings are expected to go up by 12% QoQ on the back of higher inventory gain and other income during 2Q.
- We have a 'BUY' stance on the script with our Dec-22 PT of PKR 350/share. Our price target indicates an upside of 79% along with a dividend yield of 10%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	350
Current Price (PKR)	195
Upside/(Downside) (%)	+ 79%
Dividend Yield (%)	10%
Total Return (%)	+ 89%
12-month High (PKR)	262
12-month Low (PKR)	160
Outstanding Shares (mn)	469
Market Cap (PKR mn)	91,757
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Net Sales	286,667	457,334	60%	567,432	916,558	62%
Cost of Sales	277,675	435,260	57%	546,943	872,430	60%
Gross Profit	8,993	22,074	145%	20,489	44,128	115%
Operating Expense	5,160	4,546	-12%	9,510	10,071	6%
Other Income	3,175	3,572	12%	4,412	5,359	21%
Finance cost	579	939	62%	1,437	1,564	9%
Profit Before Tax	6,573	20,318	209%	14,249	38,120	168%
Taxation	2,196	6,884	214%	4,727	12,693	169%
Net Income	4,378	13,434	207%	9,522	25,428	167%
EPS	9.33	28.62	207%	20.28	54.17	167%
DPS	5.00	5.00		5.00	5.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	22.6	-13.8	62.1	78.3	47.7	50.5
EPS Growth	-32%	NM	NM	26%	-39%	6%
DPS	10.0	0.0	15.0	20.0	14.0	17.0
PER	8.7	NM	3.1	2.5	4.1	3.9
Dividend Yield	5.1%	0.0%	7.7%	10.2%	7.2%	8.7%
EV/EBITDA	7.1	NM	3.6	2.8	3.9	3.1
P/B	0.8	0.8	0.7	0.5	0.5	0.5
ROE	9.2%	-5.6%	23.0%	23.9%	12.8%	12.4%

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 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

Investment Thesis

We have a 'BUY' stance on the script with the Dec-22 PT of PKR 350/share. Our price target indicates an upside of 79% along with a dividend yield of 10%. Our investment case on PSO is based on 1) Increase in volumetric sales owing to uptick in demand, 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	2,084,217	1,832,389	1,778,635
Net Sales	1,154,298	1,108,358	1,204,247	1,770,796	1,555,344	1,508,629
Cost of Sales	1,118,281	1,096,131	1,149,638	1,707,324	1,505,804	1,454,690
Gross Profit	36,017	12,227	54,609	63,472	49,540	53,940
SG & A	13,656	11,948	13,691	11,619	15,318	17,135
Operating Profit	22,361	279	40,919	51,853	34,221	36,804
Other Income	543	921	1,616	1,227	1,307	1,406
Financial Income	3,866	6,924	12,662	12,662	6,924	6,924
Finance Cost	8,987	13,427	10,242	9,194	8,799	7,832
Profit Before Tax	17,477	-5,134	44,056	56,548	33,654	37,302
Taxation	6,890	1,332	14,917	19,799	11,267	13,601
Profit After Tax	10,587	-6,466	29,139	36,749	22,387	23,701

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	414,631	390,411	392,453
Total Assets	417,080	342,872	379,260	467,543	448,636	456,358
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	292,875	258,005	249,858
Total Liabilities	297,899	229,811	239,281	300,205	265,482	257,484
Equity	119,181	113,061	139,978	167,339	183,154	198,874
Total Equity & liabilities	417,080	342,872	379,260	467,543	448,635	456,358

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	36,749	22,387	23,701
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	10,521	36,274	31,043
Investing Cash Flow	-12,498	50,920	18,750	13,584	35,282	28,585
Financing Cash Flow	17,351	-40,345	-11,310	26,506	-10,080	-2,185
Net change in cash	1,815	-1,067	490	29,240	19,548	21,617
Beginning Cash	-43	-722	-1,732	19,851	12,976	13,637
Closing cash	4,593	3,872	2,139	21,991	34,966	48,603

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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