

Pakistan State Oil Company Limited

Result Review

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

Pakistan Research

2QFY22 EPS clocks in at PKR 43.0, up 3.6x YoY

- PSO announced its 2QFY22 financial results today where the company reported an unconsolidated EPS of PKR 43.0, up 3.6x YoY as compared to earnings of PKR 9.3/share in corresponding period last year. Higher volumetric sales, increase in other income and hefty inventory gains led to massive growth in bottomline. This takes 1HFY22 earnings to PKR 68.6/share, up 2.4x YoY. The company has skipped the interim dividend in 2Q.
- PSO's net sales during 2Q increased by 82% YoY to PKR 523bn, primarily driven by higher POL product prices and volumetric sales. HSD sales went up by 14% YoY whereas, MS volumes recorded 13% YoY increase.
- Gross margins clocked in at 5.1% during 2Q as compared to 3.1% in SPLY, owing to inventory gains which supported the growth in bottomline.
- Other income went up by 1.8x YoY to PKR 8.9bn (PKR 13.3/share), owing to penal income booked by PSO relating to power sector receivables.
- Operating expenses clocked in at PKR 5.6bn, up 8% YoY mainly due to increase in other expenses, whereas finance cost went up by 36% YoY to PKR 784mn due to higher interest rates.
- Effective tax rate stood at 31.3% in 2Q as against 33.4% in SPLY, further supporting the bottomline growth.
- On a sequential basis, PSO's earnings grew by 68% QoQ mainly due to higher other income booked during 2Q.
- We have a 'BUY' stance on PSO. Our Dec-22 PT of PKR 350/share provides an upside of 78% along with a dividend yield of 8%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	350
Current Price (PKR)	197
Upside/(Downside) (%)	+ 78%
Dividend Yield (%)	8%
Total Return (%)	+ 85%
12-month High (PKR)	262
12-month Low (PKR)	160
Outstanding Shares (mn)	469
Market Cap (PKR mn)	92,409
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	286,667	522,749	82%	567,432	981,973	73%
Cost of Sales	277,675	496,086	79%	546,943	933,257	71%
Gross Profit	8,993	26,663	196%	20,489	48,716	138%
Operating Expense	5,160	5,560	8%	9,510	11,085	17%
Other Income	3,175	8,921	181%	4,412	10,707	143%
Finance cost	579	784	36%	1,437	1,410	-2%
Profit Before Tax	6,573	29,386	347%	14,249	47,188	231%
Taxation	2,196	9,191	319%	4,727	14,999	217%
Net Income	4,378	20,195	361%	9,522	32,189	238%
EPS	9.33	43.02	361%	20.28	68.57	238%
DPS	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	99.0	47.7	50.5
EPS Growth	-32%	NM	NM	60%	-52%	6%
DPS	10.0	0.0	15.0	15.0	14.0	17.0
PER	8.7	NM	3.2	2.0	4.1	3.9
Dividend Yield	5.1%	0.0%	7.6%	7.6%	7.1%	8.6%
EV/EBITDA	7.1	NM	3.6	2.3	3.6	2.9
P/B	0.8	0.8	0.7	0.5	0.5	0.4
ROE	9.2%	-5.6%	23.0%	29.1%	12.0%	11.7%

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 78% along with a dividend yield of 8%. 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 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	1,698,939	1,505,804	1,454,690
Gross Profit	36,017	12,227	54,609	71,858	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	60,239	34,221	36,804
Other Income	543	921	1,616	1,227	1,307	1,406
Financial Income	3,866	6,924	12,662	15,828	6,924	6,924
Finance Cost	8,987	13,427	10,242	7,417	8,799	7,832
Profit Before Tax	17,477	-5,134	44,056	69,877	33,654	37,302
Taxation	6,890	1,332	14,917	23,381	11,267	13,601
Profit After Tax	10,587	-6,466	29,139	46,495	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	426,061	402,505	404,546
Total Assets	417,080	342,872	379,260	478,974	460,729	468,452
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	292,212	258,005	249,858
Total Liabilities	297,899	229,811	239,281	299,542	265,482	257,484
Equity	119,181	113,061	139,978	179,432	195,247	210,968
Total Equity & liabilities	417,080	342,872	379,260	478,974	460,729	468,452

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	46,495	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	19,610	36,931	31,043
Investing Cash Flow	-12,498	50,920	18,750	21,646	35,940	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	38,329	20,205	21,617
Beginning Cash	-43	-722	-1,732	31,287	13,633	13,637
Closing cash	4,593	3,872	2,139	33,427	47,060	60,697

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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