

Pakistan State Oil Company Limited

Result Review

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

Pakistan Research

PSO: Massive inventory loss & finance cost dent 2QFY23 earnings

- PSO announced its 2QFY23 financial results today, wherein the company posted LPS of PKR 9.7 compared to an EPS of 43.0 in corresponding period last year. This massive decline in earnings can mainly be attributed to inventory losses and elevated finance cost.
- The company's net sales grew by 61% YoY to PKR 843bn, compared to PKR 523bn in SPLY. Despite decline in MS volumetric sales (-11% YoY), higher POL product prices (HSD +73%, MS +59% YoY) supported the revenue growth.
- Gross margin declined significantly and clocked in at 0.6% in 2QFY23 vs 5.1% in 2QFY22, mainly due to inventory loss. Our working suggests PSO has booked ~PKR 10.5bn inventory loss during 2Q.
- Finance cost increased to PKR 7.7bn, up 8.8x YoY on the back of higher interest rates and increased borrowings.
- Moreover, PSO's other income settled at PKR 3.2bn, down 65% YoY. This is possibly due to lower collection of late payment surcharge from its customers.
- We have a 'BUY' stance on PSO. Our Dec-23 PT of PKR 175/share provides an upside of 33%, along with a dividend yield of 8%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	175
Current Price (PKR)	132
Upside/(Downside) (%)	+ 33%
Dividend Yield (%)	8%
Total Return (%)	+ 40%
12-month High (PKR)	197
12-month Low (PKR)	122
Outstanding Shares (mn)	469
Market Cap (PKR mn)	61,966
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	522,749	843,000	61%	981,973	1,705,264	74%
Cost of Sales	496,086	838,159	69%	933,257	1,693,703	81%
Gross Profit	26,663	4,841	-82%	48,716	11,561	-76%
Operating Expense	5,560	4,458	-20%	11,085	9,056	-18%
Other Income	8,921	3,158	-65%	10,707	9,607	-10%
Finance cost	784	7,665	877%	1,410	12,460	784%
Profit Before Tax	29,386	(3,881)	NM	47,188	126	-100%
Taxation	9,191	678	-93%	14,999	3,487	-77%
Net Income	20,195	(4,559)	NM	32,189	(3,361)	NM
EPS	43.0	(9.7)	NM	68.6	(7.2)	NM

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	-13.8	62.1	183.7	40.5	56.2	59.0
EPS Growth	NM	NM	196%	-78%	39%	5%
DPS	0.0	15.0	10.0	10.0	14.0	20.0
PER	NM	2.1	0.7	3.3	2.3	2.2
Dividend Yield	0.0%	11.4%	7.6%	7.6%	10.6%	15.2%
EV/EBITDA	NM	2.9	1.2	6.4	4.2	4.9
P/B	0.5	0.4	0.3	0.3	0.2	0.2
ROE	-5.6%	23.0%	48.5%	8.5%	11.0%	10.7%

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' stance on PSO with Dec-23 PT of PKR 175/share. Our price target indicates an upside of 33%, 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 going forwrsd, 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 and, 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	1,108,358	1,204,247	2,451,581	3,498,561	3,441,148	3,051,464
Cost of Sales	1,096,131	1,149,638	2,290,586	3,433,092	3,356,300	2,964,716
Gross Profit	12,227	54,609	160,995	65,470	84,849	86,748
SG & A	11,948	13,691	24,094	30,073	22,396	38,567
Operating Profit	279	40,919	136,901	35,396	62,452	48,182
Other Income	921	1,616	3,315	3,315	2,883	3,276
Financial Income	6,924	12,662	17,464	17,026	10,852	12,119
Finance Cost	13,427	10,242	4,721	22,305	26,314	11,695
Profit Before Tax	-5,134	44,056	147,855	33,432	49,873	51,881
Taxation	1,332	14,917	61,633	14,396	23,489	24,196
Profit After Tax	-6,466	29,139	86,223	19,036	26,384	27,685

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	11,522	13,166	17,510	20,655	23,956	27,423
Other LT assets	38,089	38,131	36,114	35,904	37,493	39,239
Non-Current Assets	49,611	51,297	53,624	56,558	61,450	66,662
Current assets	293,261	327,962	845,830	690,257	706,416	663,807
Total Assets	342,872	379,260	899,454	746,816	767,866	730,469
Non-Current liabilities	12,461	12,239	16,548	10,129	10,332	10,539
Current liabilities	217,350	227,043	667,258	506,696	507,731	451,832
Total Liabilities	229,811	239,281	683,805	516,825	518,063	462,371
Equity	113,061	139,978	215,649	229,990	249,803	268,098
Total Equity & liabilities	342,872	379,260	899,454	746,816	767,866	730,469

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	-6,466	29,139	86,223	19,036	26,384	27,685
Non-cash Charges	1,191	1,719	2,169	2,329	2,667	3,023
Operating Cash flows	52,292	15,428	-78,811	-55,616	21,943	49,673
Investing Cash Flow	50,920	18,750	-80,563	-48,383	28,130	47,604
Financing Cash Flow	-40,345	-11,310	100,535	66,996	-3,674	-24,936
Net change in cash	-1,067	490	21,537	-302	10,913	16,708
Beginning Cash	-722	-1,732	10,985	-4,996	4,341	7,320
Closing cash	3,872	2,139	13,125	8,128	12,469	19,789

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%
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