

## PSO - FY21 Analyst briefing key takeaways

- PSO held its analyst briefing yesterday to discuss FY21 financial results. The company booked net profit of PKR 29.14bn, compared to a net loss of PKR 6.5bn during FY20. The turnaround came from higher volumetric sales and hefty inventory gains during FY21.
- PSO's white oil volumes were up by 16.2% YoY during FY21 mainly on account of increase in MS and HSD volumes by 21.1% YoY each. Black oil volumes witnessed 53.2% YoY growth due to higher FO demand from the power sector. Cumulatively, PSO's volumetric sales grew by 13.6% YoY during FY21. The company's market share in MS and HSD stood at 41% and 47%, respectively during the year.
- Company's finance cost for the year settled at PKR 10.2bn, compared to PKR 13.4bn last year, primarily due to lower interest rates. On the other hand, other income increased from PKR 10.2bn to PKR 18.8bn in FY21, primarily due to penal income received during the period.
- Receivables from power sector declined by PKR 13.4bn to PKR 85.4bn during the year. On the contrary, LNG receivables from SNGP continued to surge unabatedly and touched historic high of PKR 98.6bn during FY21. We expect this situation to further deteriorate in coming months as the winters approach. PSO's total receivables as of June 30, 2021 stood at PKR 206.1bn.
- PSO's management is optimistic that the circular debt issue will be resolved soon as federal government is considering the option of weighted average cost of gas that will restrain the pileup of circular debt.
- Regarding the OMCs margins the management updated that, similar to the last year, margin revision is expected in Dec-21.
- On expansion/upgradation of PRL, the management informed that two options are under consideration – greenfield project or used refinery and the capex will likely range between USD 500mn to USD 1.2bn. However, the actual expansion/upgradation will depend on the incentives provided in the finalized refinery policy.
- The management also apprised that PSO is focusing on lube sales and targeting the high tier segment, which will result in its increased contribution and market share in FY22.
- Updating on the future plans, the management informed that the company is gradually converting excess FO storage capacity into Mogas/HSD storage capacity. PSO had around 360,000 tons of FO storage capacity, out of which 180,000 tons of storage has been converted while the rest will be maintained as FO storage for medium term. Furthermore, the company has completed 43,000 tons of new storage and also rehabilitated 131,000 tons of storage.

### Key Data

PSX Ticker	PSO
Target Price (PKR)	310
Current Price (PKR)	214
Upside/(Downside) (%)	+ 45%
Dividend Yield (%)	7%
Total Return (%)	+ 52%
12-month High (PKR)	262
12-month Low (PKR)	184
Outstanding Shares (mn)	469
Market Cap (PKR mn)	100,371
Year End	June

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 Dec-21 PT of PKR 310/share. Our price target indicates an upside of 45% along with a dividend yield of 7%. The stock is attractive at current levels after recent correction. Furthermore, any major development on resolution of circular debt can be an upside trigger for the company's value accretion.

### 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)						
	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F
Net Income	1,305,246	1,340,978	1,302,037	1,381,916	1,627,440	1,767,915
Net Sales	1,056,902	1,154,298	1,108,358	1,204,247	1,400,908	1,523,193
Cost of Sales	1,017,264	1,118,281	1,096,131	1,149,638	1,353,608	1,474,932
<b>Gross Profit</b>	<b>39,637</b>	<b>36,017</b>	<b>12,227</b>	<b>54,609</b>	<b>47,300</b>	<b>48,262</b>
SG & A	12,708	13,656	11,948	18,820	18,767	20,329
<b>Operating Profit</b>	<b>26,929</b>	<b>22,361</b>	<b>279</b>	<b>35,789</b>	<b>28,533</b>	<b>27,933</b>
Other Income	1,769	543	921	19,408	1,076	1,127
Financial Income	3,587	3,866	6,924	-898	6,924	6,924
Finance Cost	5,123	8,987	13,427	10,242	8,108	8,816
<b>Profit Before Tax</b>	<b>27,161</b>	<b>17,477</b>	<b>-5,134</b>	<b>44,056</b>	<b>28,425</b>	<b>27,169</b>
Taxation	11,699	6,890	1,332	14,917	10,562	10,355
<b>Profit After Tax</b>	<b>15,462</b>	<b>10,587</b>	<b>-6,466</b>	<b>29,139</b>	<b>17,862</b>	<b>16,813</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	6,641	7,113	11,522	12,444	13,413	14,429
Other LT assets	17,920	25,741	37,292	36,683	38,576	40,657
Non-Current Assets	24,561	32,854	48,814	49,128	51,988	55,086
Current assets	378,001	384,225	292,904	363,380	416,676	451,644
<b>Total Assets</b>	<b>402,562</b>	<b>417,080</b>	<b>341,718</b>	<b>412,508</b>	<b>468,664</b>	<b>506,730</b>
Non-Current liabilities	5,165	7,528	11,664	6,109	6,231	6,356
Current liabilities	286,945	290,371	216,993	271,240	316,453	344,153
<b>Total Liabilities</b>	<b>292,110</b>	<b>297,899</b>	<b>228,657</b>	<b>277,350</b>	<b>322,685</b>	<b>350,509</b>
Equity	110,452	119,181	113,061	135,159	145,979	156,220
<b>Total Equity &amp; liabilities</b>	<b>402,562</b>	<b>417,080</b>	<b>341,718</b>	<b>412,508</b>	<b>468,664</b>	<b>506,730</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	15,462	10,587	-6,466	29,139	17,862	16,813
Non-cash Charges	1,057	1,116	1,191	1,822	1,960	2,105
Operating Cash flows	54,147	-8,490	52,292	57,339	36,534	17,638
Investing Cash Flow	<b>55,294</b>	<b>-12,498</b>	<b>51,717</b>	<b>61,931</b>	<b>36,746</b>	<b>17,818</b>
Financing Cash Flow	-41,122	17,351	-40,345	5,853	12,003	7,464
<b>Net change in cash</b>	<b>8,365</b>	<b>1,815</b>	<b>-1,067</b>	<b>55,501</b>	<b>43,839</b>	<b>20,024</b>
Beginning Cash	506	-43	-722	48,460	36,798	13,452
<b>Closing cash</b>	<b>4,637</b>	<b>4,593</b>	<b>3,872</b>	<b>52,331</b>	<b>89,129</b>	<b>102,581</b>

Source: Company Accounts, Akseer Research

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