

PSO - FY21 earnings to clock in at PKR 49.6/share, 4QFY21 EPS PKR 10.76

- PSO's board meeting is scheduled on August 23, 2021 to consider FY21 financial results. We expect the company to post an EPS of PKR 49.6, as compared to an LPS of PKR 13.77 during FY20, driven by higher volumetric sales and inventory gains during the year.
- Along with the result, we expect the company to announce final dividend of PKR 5/share, in addition to an interim dividend of PKR 5/share, taking the cumulative payout in FY21 to PKR 10/share.
- PSO's overall volumetric sales grew by 23% YoY in FY21. FO sales increased by 90% YoY whereas HSD and MS sales surged 20% YoY, each. This growth can mainly be attributed to resumption of economic activities post COVID-19 lockdowns, where PSO's retail fuel (HSD and MS) market share increased by 2% during the year.
- The company's net sales are estimated to increase by 7% YoY to PKR 1,187bn, primarily due to higher volumetric growth, however, gross profit is expected to increase ~3.0x owing to hefty inventory losses during the SPLY.
- Operating expenses are expected to be around PKR 18.2bn for FY21, up 24% YoY. We expect finance cost to decline significantly due to lower interest rates; however, other income is also expected to decline 27% YoY and settle at PKR 7.5bn, restricting the growth in the bottomline.
- On quarterly basis, PSO is expected to post an EPS of PKR 10.76, compared to an LPS of PKR 20.18 in the SPLY. This can mainly be attributed to cumulative 15% YoY growth in HSD and MS volumes and absence of significant inventory losses.
- We have a 'BUY' stance on the script with the Dec-21 PT of PKR 311/share. Our price target indicates an upside of 45% along with a dividend yield of 5%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	311
Current Price (PKR)	215
Upside/(Downside) (%)	+ 45%
Dividend Yield (%)	5%
Total Return (%)	+ 49%
12-month High (PKR)	262
12-month Low (PKR)	184
Outstanding Shares (mn)	469
Market Cap (PKR mn)	100,995
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	221,027	333,925	51%	1,108,358	1,186,887	7%
Cost of Sales	228,942	323,231	41%	1,096,131	1,138,453	4%
Gross Profit	-7,915	10,694	NM	12,227	48,434	296%
Operating Expense	3,930	4,521	15%	14,689	18,167	24%
Other Income	1,928	2,303	19%	10,210	7,455	-27%
Finance cost	2,919	1,055	-64%	13,427	3,557	-74%
Profit Before Tax	-12,749	7,536	NM	-5,134	34,710	NM
Taxation	-3,275	2,487	NM	1,332	11,419	758%
Net Income	-9,474	5,049	NM	-6,466	23,291	NM
EPS	-20.18	10.76	NM	-13.77	49.61	NM
DPS	0.00	5.00		0.00	10.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	32.9	22.6	-13.8	49.6	38.0	35.7
EPS Growth	-15%	-32%	NM	NM	-23%	-6%
DPS	15.0	10.0	0.0	10.0	15.0	14.0
PER	6.5	9.5	NM	4.3	5.7	6.0
Dividend Yield	4.04%	4.65%	0.00%	4.65%	6.97%	6.51%
EV/EBITDA	6.3	7.7	NM	4.6	4.0	3.6
P/B	1.0	0.9	1.0	0.8	0.8	0.7
ROE	14.5%	9.2%	-5.6%	19.0%	13.0%	11.4%

Source: Company Accounts, Akseer Research

Aftab Awan, ACCA
aftab.awan@akseerresearch.com

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 311/share. Our price target indicates an upside of 45% along with a dividend yield of 5%. 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	FY21E	FY22F	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	1,186,887	1,400,908	1,523,193
Cost of Sales	1,017,264	1,118,281	1,096,131	1,138,453	1,353,608	1,474,932
Gross Profit	39,637	36,017	12,227	48,434	47,300	48,262
SG & A	12,708	13,656	11,948	16,980	18,767	20,329
Operating Profit	26,929	22,361	279	31,454	28,533	27,933
Other Income	1,769	543	921	1,273	1,039	1,090
Financial Income	3,587	3,866	6,924	5,539	6,924	6,924
Finance Cost	5,123	8,987	13,427	3,557	8,108	8,816
Profit Before Tax	27,161	17,477	-5,134	34,710	28,388	27,132
Taxation	11,699	6,890	1,332	11,419	10,562	10,355
Profit After Tax	15,462	10,587	-6,466	23,291	17,825	16,776

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	356,401	413,138	448,069
Total Assets	402,562	417,080	341,718	405,528	465,126	503,155
Non-Current liabilities	5,165	7,528	11,664	6,109	6,231	6,356
Current liabilities	286,945	290,371	216,993	267,762	316,453	344,153
Total Liabilities	292,110	297,899	228,657	273,871	322,685	350,509
Equity	110,452	119,181	113,061	131,658	142,441	152,646
Total Equity & liabilities	402,562	417,080	341,718	405,528	465,126	503,155

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	15,462	10,587	-6,466	23,291	17,825	16,776
Non-cash Charges	1,057	1,116	1,191	1,822	1,960	2,105
Operating Cash flows	54,147	-8,490	52,292	51,266	36,721	17,601
Investing Cash Flow	55,294	-12,498	51,717	51,499	36,933	17,781
Financing Cash Flow	-41,122	17,351	-40,345	4,793	13,063	7,464
Net change in cash	8,365	1,815	-1,067	48,369	45,086	19,987
Beginning Cash	506	-43	-722	43,675	38,044	13,415
Closing cash	4,637	4,593	3,872	47,547	85,591	99,006

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,

KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net