

Pakistan State Oil Company Limited
Result Review

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

Pakistan Research

PSO - FY21 earnings clock in at PKR 62.07/share, 4QFY21 EPS PKR 23.21

- PSO announced its FY21 financial results today, where the company reported an EPS of PKR 62.07, 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, the company announced final dividend of PKR 10/share, in addition to an interim dividend of PKR 5/share, taking the cumulative payout in FY21 to PKR 15/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 is mainly due to resumption of economic activities, where PSO's retail fuel (HSD and MS) market share increased by 2% during the year.
- The company's net sales increased by 9% YoY to PKR 1.2tn, primarily due to volumetric growth, however, gross profit surged ~3.5x owing to absence of inventory losses during FY21.
- Other income grew by 84% YoY during FY21 to PKR 18.8bn due to late payment surcharge received by the company.
- Operating expenses clocked in at PKR 18.8bn for FY21, up 28% YoY whereas, the finance cost declined by 24% YoY due to lower interest rates.
- On quarterly basis, PSO posted an EPS of PKR 23.21, 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, absence of hefty inventory losses and significant increase in other income.
- We have a 'BUY' stance on the script with the Dec-21 PT of PKR 311/share. Our price target indicates an upside of 34% along with a dividend yield of 6%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	311
Current Price (PKR)	231
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	6%
Total Return (%)	+ 40%
12-month High (PKR)	262
12-month Low (PKR)	184
Outstanding Shares (mn)	469
Market Cap (PKR mn)	108,581
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Sales	221,027	351,286	59%	1,108,358	1,204,247	9%
Cost of Sales	228,942	334,416	46%	1,096,131	1,149,638	5%
Gross Profit	-7,915	16,869	NM	12,227	54,609	347%
Operating Expense	3,930	5,175	32%	14,689	18,820	28%
Other Income	1,928	13,674	609%	10,210	18,826	84%
Finance cost	2,919	7,741	165%	13,427	10,242	-24%
Profit Before Tax	-12,749	16,882	NM	-5,134	44,056	NM
Taxation	-3,275	5,985	NM	1,332	14,917	1020%
Net Income	-9,474	10,897	NM	-6,466	29,139	NM
EPS	-20.18	23.21	NM	-13.77	62.07	NM
DPS	0.00	10.00		0.00	15.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	32.9	22.6	-13.8	62.1	38.1	35.8
EPS Growth	-15%	-32%	NM	NM	-39%	-6%
DPS	15.0	10.0	0.0	15.0	15.0	14.0
PER	7.0	10.3	NM	3.7	6.1	6.5
Dividend Yield	3.75%	4.32%	0.00%	6.49%	6.49%	6.05%
EV/EBITDA	6.2	7.6	NM	4.2	3.8	3.3
P/B	1.0	0.9	1.0	0.8	0.7	0.7
ROE	14.5%	9.2%	-5.6%	23.5%	12.7%	11.1%

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 311/share. Our price target indicates an upside of 34% along with a dividend yield of 6%. 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
Gross Profit	39,637	36,017	12,227	54,609	47,300	48,262
SG & A	12,708	13,656	11,948	18,820	18,767	20,329
Operating Profit	26,929	22,361	279	35,789	28,533	27,933
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
Profit Before Tax	27,161	17,477	-5,134	44,056	28,425	27,169
Taxation	11,699	6,890	1,332	14,917	10,562	10,355
Profit After Tax	15,462	10,587	-6,466	29,139	17,862	16,813

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
Total Assets	402,562	417,080	341,718	412,508	468,664	506,730
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
Total Liabilities	292,110	297,899	228,657	277,350	322,685	350,509
Equity	110,452	119,181	113,061	135,159	145,979	156,220
Total Equity & liabilities	402,562	417,080	341,718	412,508	468,664	506,730

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	55,294	-12,498	51,717	61,931	36,746	17,818
Financing Cash Flow	-41,122	17,351	-40,345	5,853	12,003	7,464
Net change in cash	8,365	1,815	-1,067	55,501	43,839	20,024
Beginning Cash	506	-43	-722	48,460	36,798	13,452
Closing cash	4,637	4,593	3,872	52,331	89,129	102,581

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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Sell	Less than or equal to -5%

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