

FY22 EPS expected at PKR 170.2, up 174% YoY; DPS at PKR 25.0

- PSO's board meeting is scheduled on August 26, 2022 to consider FY22 financial results. We expect the company to report an EPS of PKR 170.2, up 174% YoY, driven by higher product prices, increase in volumetric sales and inventory gains during the year. Along with result, company is expected to announce a final cash dividend of PKR 25.0/share. Just to recall, PSO skipped interim dividend in FY22.
- The company's net sales are likely to grow by 99% YoY to PKR 2.4tn primarily due to 26% YoY increase in HSD sales and 15% YoY increase in MS sales. Similarly, higher POL product prices on YoY basis will also support the topline growth.
- Operating expenses are likely to go up by 49% YoY to PKR 28.1bn due to increase in topline, whereas the finance cost is expected to go down by 36% YoY to PKR 6.6bn due to high base effect. Just to recall, PSO booked late payment surcharge of PKR 7.7bn, thus elevating the overall finance cost during FY21.
- On the contrary, PSO's other income is likely to settle at PKR 32.4bn, up 72% YoY owing to higher collection of late payment surcharge from its customers.
- PSO's effective tax rate during FY22 is expected at 44% which will restrict the bottomline growth. This significant increase in tax expense is on the back of 10% super tax imposed on FY22 earnings.
- On a quarterly basis, PSO's earnings are expected at PKR 32.3/share, up 39% YoY mainly on account of higher product prices and growth in volumetric sales (HSD +24%, MS +11% YoY). However, super tax of 10% on FY22 earnings (to be charged in 4Q) is expected to restrict the earnings growth.
- We have a 'BUY' stance on the script. Our Dec-22 PT of PKR 245/share provides an upside of 31% along with a dividend yield of 13%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	245
Current Price (PKR)	187
Upside/(Downside) (%)	+ 31%
Dividend Yield (%)	13%
Total Return (%)	+ 44%
12-month High (PKR)	229
12-month Low (PKR)	154
Outstanding Shares (mn)	469
Market Cap (PKR mn)	87,668
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Sales	351,286	844,916	141%	1,204,247	2,394,839	99%
Cost of Sales	334,416	794,396	138%	1,149,638	2,251,694	96%
Gross Profit	16,869	50,520	199%	54,609	143,145	162%
Operating Expense	5,175	8,714	68%	18,820	28,115	49%
Other Income	13,674	10,045	-27%	18,826	32,373	72%
Finance cost	7,741	3,875	-50%	10,242	6,557	-36%
Profit Before Tax	16,882	47,997	184%	44,056	141,427	221%
Taxation	5,985	32,852	449%	14,917	61,513	312%
Net Income	10,897	15,145	39%	29,139	79,914	174%
EPS	23.2	32.3	39%	62.1	170.2	174%
DPS	10.0	25.0		15.0	25.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	22.6	-13.8	62.1	170.2	33.2	47.3
EPS Growth	-32%	NM	NM	174%	-80%	43%
DPS	10.0	0.0	15.0	25.0	9.0	16.0
PER	8.3	NM	3.0	1.1	5.6	3.9
Dividend Yield	5.4%	0.0%	8.0%	13.4%	4.8%	8.6%
EV/EBITDA	6.9	NM	3.5	1.3	4.8	3.5
P/B	0.7	0.8	0.6	0.4	0.4	0.4
ROE	9.2%	-5.6%	23.0%	45.9%	7.3%	9.8%

Source: Company Accounts, Akseer Research

Aftab Awan

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'BUY' stance on the script with the Dec-22 PT of PKR 245/share. Our price target indicates an upside of 31% along with a dividend yield of 13%. 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 Income	1,340,978	1,302,037	1,424,249	2,635,412	2,468,094	2,355,963
Net Sales	1,154,298	1,108,358	1,204,247	2,394,839	2,094,385	1,996,511
Cost of Sales	1,118,281	1,096,131	1,149,638	2,251,694	2,035,627	1,928,855
Gross Profit	36,017	12,227	54,609	143,145	58,758	67,656
SG & A	13,656	11,948	13,691	17,914	22,511	22,460
Operating Profit	22,361	279	40,919	125,231	36,247	45,196
Other Income	543	921	1,616	1,227	1,307	1,406
Financial Income	3,866	6,924	12,662	21,526	3,866	3,866
Finance Cost	8,987	13,427	10,242	6,557	13,941	12,196
Profit Before Tax	17,477	-5,134	44,056	141,427	27,479	38,271
Taxation	6,890	1,332	14,917	61,513	11,883	16,046
Profit After Tax	10,587	-6,466	29,139	79,914	15,596	22,226

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	573,125	533,358	524,688
Total Assets	417,080	342,872	379,260	626,037	591,582	588,593
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	410,551	364,578	346,725
Total Liabilities	297,899	229,811	239,281	417,881	372,055	354,351
Equity	119,181	113,061	139,978	208,156	219,527	234,242
Total Equity & liabilities	417,080	342,872	379,260	626,037	591,582	588,593

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	79,914	15,596	22,226
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	-37,953	45,515	14,958
Investing Cash Flow	-12,498	50,920	18,750	-37,138	46,504	14,572
Financing Cash Flow	17,351	-40,345	-11,310	75,489	-16,539	-5,388
Net change in cash	1,815	-1,067	490	29,749	22,330	2,330
Beginning Cash	-43	-722	-1,732	18,013	18,105	-5,181
Closing cash	4,593	3,872	2,139	20,152	38,257	33,076

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (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 Alpha Capital 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

Alpha Capital (Pvt) Limited (Formerly: 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