

FY22 EPS clocks in at PKR 183.7, up 196% YoY, DPS at PKR 10.0

- PSO announced its FY22 financial results today, wherein the company reported an EPS of PKR 183.7, as compared to an EPS of PKR 62.1 during FY21. This growth is driven by higher product prices, increase in volumetric sales and massive inventory gains during the year. Along with result, company also announced a final cash dividend of PKR 10.0/share. Just to recall, PSO skipped interim dividend in FY22.
- The company's net sales grew by 104% YoY to PKR 2.5tn primarily due to 26% YoY increase in HSD sales and 15% YoY increase in MS sales. Furthermore, PSO also managed to increase its retail fuel (HSD and MS) market share by 3% during the year. Similarly, higher POL product prices on YoY also supported the topline growth.
- Operating expenses went up by 53% YoY to PKR 28.8bn due to increase in topline, whereas the finance cost declined by 54% YoY to PKR 4.7bn 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.
- PSO's other income came in at PKR 24.8bn, up 32% YoY owing to higher collection of late payment surcharge from its customers.
- PSO's effective tax rate during FY22 remained 41.7%, compared to 33.9% in SPLY, thus restricting 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 posted an EPS of PKR 45.7, up 97% YoY mainly on account of higher product prices, growth in volumetric sales (HSD +24%, MS +11% YoY) and inventory gains.
- We have a 'BUY' stance on the script. Our Dec-22 PT of PKR 245/share provides an upside of 34% along with a dividend yield of 5%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	245
Current Price (PKR)	184
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	5%
Total Return (%)	+ 39%
12-month High (PKR)	222
12-month Low (PKR)	154
Outstanding Shares (mn)	469
Market Cap (PKR mn)	86,231
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	351,286	901,658	157%	1,204,247	2,451,581	104%
Cost of Sales	334,416	833,288	149%	1,149,638	2,290,586	99%
Gross Profit	16,869	68,370	305%	54,609	160,995	195%
Operating Expense	5,175	9,421	82%	18,820	28,822	53%
Other Income	13,674	2,486	-82%	18,826	24,813	32%
Finance cost	7,741	2,039	-74%	10,242	4,721	-54%
Profit Before Tax	16,882	54,425	222%	44,056	147,855	236%
Taxation	5,985	32,972	451%	14,917	61,633	313%
Net Income	10,897	21,453	97%	29,139	86,223	196%
EPS	23.2	45.7	97%	62.1	183.7	196%
DPS	10.0	10.0		15.0	10.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	22.6	-13.8	62.1	183.7	33.5	47.6
EPS Growth	-32%	NM	NM	196%	-82%	42%
DPS	10.0	0.0	15.0	10.0	10.0	16.0
PER	8.1	NM	3.0	1.0	5.5	3.9
Dividend Yield	5.4%	0.0%	8.2%	5.4%	5.4%	8.7%
EV/EBITDA	6.9	NM	3.5	1.3	4.4	3.2
P/B	0.7	0.8	0.6	0.4	0.4	0.3
ROE	9.2%	-5.6%	23.0%	47.7%	6.9%	9.3%

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 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 34% along with a dividend yield of 5%. 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	FY22A	FY23E	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	2,451,581	2,094,385	1,996,511
Cost of Sales	1,118,281	1,096,131	1,149,638	2,290,586	2,035,627	1,928,855
Gross Profit	36,017	12,227	54,609	160,995	58,758	67,656
SG & A	13,656	11,948	13,691	28,822	22,511	22,460
Operating Profit	22,361	279	40,919	132,173	36,247	45,196
Other Income	543	921	1,616	694	1,420	1,518
Financial Income	3,866	6,924	12,662	24,813	3,866	3,866
Finance Cost	8,987	13,427	10,242	4,721	13,941	12,196
Profit Before Tax	17,477	-5,134	44,056	147,855	27,592	38,384
Taxation	6,890	1,332	14,917	61,633	11,883	16,046
Profit After Tax	10,587	-6,466	29,139	86,223	15,709	22,338

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	595,006	546,351	537,793
Total Assets	417,080	342,872	379,260	647,918	604,575	601,699
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	419,082	364,578	346,725
Total Liabilities	297,899	229,811	239,281	426,412	372,055	354,351
Equity	119,181	113,061	139,978	221,506	232,520	247,348
Total Equity & liabilities	417,080	342,872	379,260	647,918	604,575	601,699

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	86,223	15,709	22,338
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	-31,767	45,885	13,855
Investing Cash Flow	-12,498	50,920	18,750	-31,901	46,874	13,468
Financing Cash Flow	17,351	-40,345	-11,310	78,612	-19,663	-5,388
Net change in cash	1,815	-1,067	490	39,059	19,576	1,226
Beginning Cash	-43	-722	-1,732	34,364	14,882	-6,285
Closing cash	4,593	3,872	2,139	36,504	51,386	45,101

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

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