

Pakistan State Oil Company Limited

Key Takeaways

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

Pakistan Research

PSO - Analyst briefing key takeaways

- PSO conducted its analyst briefing session today to discuss 9MFY22 financial results and future outlook. The company booked net profit of PKR 64.8bn, compared to PKR 18.2bn during 9MFY21, up 2.6x YoY. The turnaround came from higher volumetric sales and hefty inventory gains during the period under review.
- The company's overall liquid fuels grew by 22% YoY, outperforming the industry growth of 13.6%. PSO's white oil market share increased by 3.3% to 48.3% during 9MFY22, mainly on account of increase in MS and HSD market share to 43.5% and 50.4%, respectively. The company also led the black oil market with market share reaching 56.5% during the 9MFY22. Black oil volumes witnessed 31% YoY growth due to higher FO demand from the power sector.
- Overdue receivables of the company stood at PKR 291.5bn as of March 31, 2022, registering an increase of PKR 112.6bn during the 9 months. This is mainly due to receivables from SNGP that continued to surge and reached historic high of PKR 207.9bn. The management of the company is pursuing the matter and is in constant dialogue with the concerned ministry for the timely recovery of this amount.
- Regarding the volumetric growth, the management expects it to be limited in FY23 owing to higher POL product prices. FO demand in FY23 will remain intact owing to higher LNG prices in international market, unless there are other sources to procure LNG.
- On upgradation of PRL, the management informed that currently field study has commenced that usually takes 8-10 months. After the study, the upgradation plan could be finalised. As per the management, despite higher margins PRL will still require capital injection to upgrade and PSO is willing to support the refinery in every which way.
- Regarding the PDC, management apprised that government has completely settled PDC with PSO and no amount is outstanding.

Key Data

PSX Ticker	PSO
Target Price (PKR)	201
Current Price (PKR)	174
Upside/(Downside) (%)	+15%
Dividend Yield (%)	7%
Total Return (%)	+23%
12-month High (PKR)	233
12-month Low (PKR)	154
Outstanding Shares (mn)	469
Market Cap (PKR mn)	81,603
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 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 201/share. Our price target indicates an upside of 15% along with a dividend yield of 7%. 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 Sales	1,154,298	1,108,358	1,204,247	2,368,362	2,029,755	1,871,896
Cost of Sales	1,118,281	1,096,131	1,149,638	2,241,931	1,969,724	1,806,384
Gross Profit	36,017	12,227	54,609	126,430	60,031	65,512
SG & A	13,656	11,948	13,691	15,353	19,805	21,100
Operating Profit	22,361	279	40,919	111,077	40,225	44,412
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	5,511	11,483	9,718
Profit Before Tax	17,477	-5,134	44,056	128,319	33,916	39,965
Taxation	6,890	1,332	14,917	52,609	13,603	16,993
Profit After Tax	10,587	-6,466	29,139	75,710	20,313	22,972

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	551,667	509,899	492,570
Total Assets	417,080	342,872	379,260	604,580	568,124	556,476
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	387,664	336,382	309,593
Total Liabilities	297,899	229,811	239,281	394,994	343,858	317,219
Equity	119,181	113,061	139,978	209,585	224,265	239,257
Total Equity & liabilities	417,080	342,872	379,260	604,580	568,124	556,476

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	75,381	18,873	21,822
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	-45,847	34,752	15,049
FCFF	-12,498	50,920	18,750	-44,900	35,853	14,107
Net Borrowings	17,351	-40,345	-11,310	74,032	-18,639	-8,690
FCFE	1,815	-1,067	490	20,397	9,466	-881
Net Change in Cash	-43	-722	-1,732	14,294	3,833	-8,392
Closing cash	4,593	3,872	2,139	16,434	20,267	11,875

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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Hold	Between -5% and +15%
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