

1QFY23 EPS expected at PKR 13.8, down 46% YoY

- PSO's board meeting is scheduled on October 27, 2022 to consider 1QFY23 financial results. We expect the company to report an EPS of PKR 13.8, down 46% YoY, primarily due to lower volumetric sales.
- The company's net sales are likely to grow by 63% YoY to PKR 750bn on account of higher POL product prices where HSD and MS prices increased by 114% YoY and 99% YoY, respectively during the quarter.
- Operating expenses are likely to go up by 58% YoY to PKR 8.7bn due to increase in topline, whereas the finance cost is also expected to go up by 6.9x YoY to PKR 4.9bn due to higher interest rates and increased borrowings.
- On the contrary, PSO's other income is likely to settle at PKR 3.0bn, up 71% YoY owing to higher collection of late payment surcharge from its customers.
- On a sequential basis, PSO's earnings are expected to decline by 70% QoQ due to steep decline in volumetric sales and high base effect as the company booked huge inventory gains in preceding quarter.
- We have a 'BUY' stance on the script. Our Jun-23 PT of PKR 250/share provides an upside of 62% along with a dividend yield of 7%.

Key Data

PSX Ticker	PSO
Target Price (PKR)	250
Current Price (PKR)	154
Upside/(Downside) (%)	+ 62%
Dividend Yield (%)	7%
Total Return (%)	+ 69%
12-month High (PKR)	199
12-month Low (PKR)	152
Outstanding Shares (mn)	469
Market Cap (PKR mn)	72,153
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Net Sales	459,224	750,684	63%
Cost of Sales	437,170	729,455	67%
Gross Profit	22,054	21,228	-4%
Operating Expense	5,525	8,728	58%
Other Income	1,786	3,046	71%
Finance cost	626	4,921	686%
Profit Before Tax	17,802	10,800	-39%
Taxation	5,808	4,339	-25%
Net Income	11,994	6,461	-46%
EPS	25.5	13.8	-46%
DPS	-	-	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	-13.8	62.1	183.7	40.5	30.8	38.0
EPS Growth	NM	NM	196%	-78%	-24%	23%
DPS	0.0	15.0	10.0	10.0	10.0	13.0
PER	NM	2.5	0.8	3.8	5.0	4.0
Dividend Yield	0.0%	9.8%	6.5%	6.5%	6.5%	8.5%
EV/EBITDA	NM	3.1	1.3	4.2	5.1	4.2
P/B	0.6	0.5	0.3	0.3	0.3	0.3
ROE	-5.6%	23.0%	48.5%	8.5%	6.2%	7.3%

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 Jun-23 PT of PKR 250/share. Our price target indicates an upside of 62% 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	1,108,358	1,204,247	2,451,581	2,547,020	2,269,207	2,098,389
Cost of Sales	1,096,131	1,149,638	2,290,586	2,470,251	2,205,084	2,030,668
Gross Profit	12,227	54,609	160,995	76,770	64,123	67,721
SG & A	11,948	13,691	24,094	27,270	25,465	27,097
Operating Profit	279	40,919	136,901	49,499	38,658	40,624
Other Income	921	1,616	3,315	1,372	2,203	2,358
Financial Income	6,924	12,662	17,464	3,866	3,866	3,866
Finance Cost	13,427	10,242	4,721	19,682	16,093	13,547
Profit Before Tax	-5,134	44,056	147,855	35,055	28,634	33,300
Taxation	1,332	14,917	61,633	16,042	14,158	15,441
Profit After Tax	-6,466	29,139	86,223	19,014	14,476	17,859

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	11,522	13,166	17,510	20,655	23,956	27,423
Other LT assets	38,089	38,131	36,114	35,904	37,493	39,239
Non-Current Assets	49,611	51,297	53,624	56,558	61,450	66,662
Current assets	293,261	327,962	845,830	533,375	490,051	475,143
Total Assets	342,872	379,260	899,454	589,933	551,501	541,805
Non-Current liabilities	12,461	12,239	16,548	10,129	10,332	10,539
Current liabilities	217,350	227,043	667,258	349,835	301,419	279,760
Total Liabilities	229,811	239,281	683,805	359,965	311,751	290,299
Equity	113,061	139,978	215,649	229,968	239,750	251,506
Total Equity & liabilities	342,872	379,260	899,454	589,933	551,501	541,805

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	-6,466	29,139	86,223	19,014	14,476	17,859
Non-cash Charges	1,191	1,719	2,169	2,329	2,667	3,023
Operating Cash flows	52,292	15,428	-78,811	7,824	39,221	39,874
Investing Cash Flow	50,920	18,750	-80,563	13,055	39,601	38,771
Financing Cash Flow	-40,345	-11,310	100,535	6,107	-17,777	-10,931
Net change in cash	-1,067	490	21,537	2,250	14,088	20,915
Beginning Cash	-722	-1,732	10,985	-2,444	9,393	14,812
Closing cash	3,872	2,139	13,125	10,681	20,074	34,887

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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