

### 3QFY22 EPS expected at PKR 27.6, up 49% YoY

- PSO's board meeting is scheduled on April 28, 2022 to consider 3QFY22 financial results. We expect the company to report an EPS of PKR 27.6, up 49% YoY, driven by higher product prices, increase in volumetric sales and inventory gains during the quarter. This will take 9MFY22 earnings to PKR 96.2/share, up 1.5x YoY. PSO is expected to skip interim dividend given the expected liquidity crunch amid increasing receivables from government.
- The company's net sales are likely to grow by 1.1x YoY to PKR 609bn primarily due to 44% 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 56% YoY at PKR 6.4bn due to increase in topline, whereas the finance cost is expected to go up by 2.7x YoY to PKR 3.9bn due to higher interest rates and increased short term borrowings.
- On the contrary, 4.6x YoY higher other income at PKR 4.1bn is likely to support earnings growth.
- On a sequential basis, PSO earnings are expected to decline by 36% QoQ mainly on account of lower other income and higher finance cost. Furthermore, PSO's HSD and MS volumetric sales also declined 4% and 1% QoQ, respectively further deteriorating the bottomline.
- We have a 'BUY' stance on the script with our revised Dec-22 PT of PKR 275/share. Our price target indicates an upside of 64% along with a dividend yield of 9%.

#### Key Data

PSX Ticker	PSO
Target Price (PKR)	275
Current Price (PKR)	168
Upside/(Downside) (%)	+ 64%
Dividend Yield (%)	9%
Total Return (%)	+ 73%
12-month High (PKR)	249
12-month Low (PKR)	155
Outstanding Shares (mn)	469
Market Cap (PKR mn)	78,857
Year End	June

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Net Sales	285,529	609,274	113%	852,962	1,591,247	87%
Cost of Sales	268,279	584,038	118%	815,222	1,517,295	86%
<b>Gross Profit</b>	<b>17,251</b>	<b>25,236</b>	<b>46%</b>	<b>37,740</b>	<b>73,952</b>	<b>96%</b>
Operating Expense	4,136	6,437	56%	13,646	17,522	28%
Other Income	740	4,145	460%	5,152	14,852	188%
Finance cost	1,064	3,959	272%	2,502	5,369	115%
<b>Profit Before Tax</b>	<b>12,925</b>	<b>19,145</b>	<b>48%</b>	<b>27,174</b>	<b>66,333</b>	<b>144%</b>
Taxation	4,205	6,181	47%	8,932	21,181	137%
<b>Net Income</b>	<b>8,720</b>	<b>12,964</b>	<b>49%</b>	<b>18,242</b>	<b>45,153</b>	<b>148%</b>
EPS	<b>18.58</b>	<b>27.62</b>	<b>49%</b>	<b>38.86</b>	<b>96.18</b>	<b>148%</b>
DPS	-	-		5.00	-	

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	22.6	-13.8	62.1	113.3	39.1	45.5
EPS Growth	-32%	NM	NM	83%	-66%	16%
DPS	10.0	0.0	15.0	15.0	11.0	15.0
PER	7.4	NM	2.7	1.5	4.3	3.7
Dividend Yield	6.0%	0.0%	8.9%	8.9%	6.5%	8.9%
EV/EBITDA	6.6	NM	3.3	1.5	3.2	2.7
P/B	0.7	0.7	0.6	0.4	0.4	0.4
ROE	9.2%	-5.6%	23.0%	32.6%	9.5%	10.3%

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 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

### Investment Thesis

We have a 'BUY' stance on the script with the Dec-22 PT of PKR 275/share. Our price target indicates an upside of 64% along with a dividend yield of 9%. 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	2,615,880	2,155,760	2,024,913
Net Sales	1,154,298	1,108,358	1,204,247	2,227,225	1,832,888	1,719,799
Cost of Sales	1,118,281	1,096,131	1,149,638	2,134,512	1,780,874	1,662,366
<b>Gross Profit</b>	<b>36,017</b>	<b>12,227</b>	<b>54,609</b>	<b>92,712</b>	<b>52,015</b>	<b>57,433</b>
SG & A	13,656	11,948	13,691	14,471	17,943	19,440
<b>Operating Profit</b>	<b>22,361</b>	<b>279</b>	<b>40,919</b>	<b>78,241</b>	<b>34,071</b>	<b>37,993</b>
Other Income	543	921	1,616	1,227	1,307	1,406
Financial Income	3,866	6,924	12,662	8,864	3,866	3,866
Finance Cost	8,987	13,427	10,242	9,328	10,369	8,929
<b>Profit Before Tax</b>	<b>17,477</b>	<b>-5,134</b>	<b>44,056</b>	<b>79,003</b>	<b>28,875</b>	<b>34,335</b>
Taxation	6,890	1,332	14,917	25,799	10,543	12,993
<b>Profit After Tax</b>	<b>10,587</b>	<b>-6,466</b>	<b>29,139</b>	<b>53,204</b>	<b>18,332</b>	<b>21,342</b>

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	507,325	452,708	442,168
<b>Total Assets</b>	<b>417,080</b>	<b>342,872</b>	<b>379,260</b>	<b>560,237</b>	<b>510,932</b>	<b>506,073</b>
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	366,767	304,147	284,838
<b>Total Liabilities</b>	<b>297,899</b>	<b>229,811</b>	<b>239,281</b>	<b>374,097</b>	<b>311,624</b>	<b>292,464</b>
Equity	119,181	113,061	139,978	186,140	199,308	213,609
<b>Total Equity &amp; liabilities</b>	<b>417,080</b>	<b>342,872</b>	<b>379,260</b>	<b>560,237</b>	<b>510,932</b>	<b>506,073</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	53,204	18,332	21,342
Non-cash Charges	1,116	1,191	1,278	1,263	1,481	1,709
Operating Cash flows	-8,490	52,292	14,986	36,633	6,965	32,893
Investing Cash Flow	<b>-12,498</b>	<b>50,920</b>	<b>18,750</b>	<b>40,014</b>	<b>6,677</b>	<b>30,995</b>
Financing Cash Flow	17,351	-40,345	-11,310	47,859	-18,449	-5,291
<b>Net change in cash</b>	<b>1,815</b>	<b>-1,067</b>	<b>490</b>	<b>76,705</b>	<b>-18,130</b>	<b>20,362</b>
Beginning Cash	-43	-722	-1,732	69,663	-23,294	13,320
<b>Closing cash</b>	<b>4,593</b>	<b>3,872</b>	<b>2,139</b>	<b>71,803</b>	<b>48,509</b>	<b>61,829</b>

Source: Company Accounts, Akseer Research

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