

## 3QFY22 EPS clocks in at PKR 69.4, up 2.74x YoY

- PSO's announced its 3QFY22 financial results today where the company reported an EPS of PKR 69.4, up 2.74x YoY, driven by higher product prices, increase in volumetric sales and inventory gains during the quarter. The result came in above our expectation primarily due to higher-than-expected gross margin and other income. This takes 9MFY22 earnings to PKR 137.97/share, up 2.55x YoY.
- The company's net sales grew by 99% YoY to PKR 568bn primarily due to 44% YoY increase in HSD sales and 15% YoY increase in MS sales. Similarly, higher POL product prices on YoY basis also supported the topline growth.
- Operating expenses went up by 101% YoY to PKR 8.3bn due to increase in topline, whereas the finance cost increased by 19% YoY to PKR 1.3bn due to higher interest rates and increased short term borrowings.
- On the contrary, other income witnessed 14.7x YoY increase to PKR 11.6bn possibly due to receipt of penal income during the quarter.
- On a sequential basis, PSO's earnings went up by 61% QoQ mainly on account of improved gross margin amid higher inventory gains and increase in other income.
- 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)	78,730
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	285,529	567,950	99%	852,962	1,549,923	82%
Cost of Sales	268,279	524,041	95%	815,222	1,457,298	79%
<b>Gross Profit</b>	<b>17,251</b>	<b>43,909</b>	<b>155%</b>	<b>37,740</b>	<b>92,625</b>	<b>145%</b>
Operating Expense	4,136	8,316	101%	13,646	19,401	42%
Other Income	740	11,620	1470%	5,152	22,328	333%
Finance cost	1,064	1,271	19%	2,502	2,681	7%
<b>Profit Before Tax</b>	<b>12,925</b>	<b>46,242</b>	<b>258%</b>	<b>27,174</b>	<b>93,430</b>	<b>244%</b>
Taxation	4,205	13,661	225%	8,932	28,661	221%
<b>Net Income</b>	<b>8,720</b>	<b>32,580</b>	<b>274%</b>	<b>18,242</b>	<b>64,769</b>	<b>255%</b>
EPS	<b>18.58</b>	<b>69.40</b>	<b>274%</b>	<b>38.86</b>	<b>137.97</b>	<b>255%</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	164.9	39.1	45.5
EPS Growth	-32%	NM	NM	166%	-76%	16%
DPS	10.0	0.0	15.0	15.0	11.0	15.0
PER	7.4	NM	2.7	1.0	4.3	3.7
Dividend Yield	6.0%	0.0%	8.9%	8.9%	6.6%	8.9%
EV/EBITDA	6.6	NM	3.3	1.1	2.5	2.1
P/B	0.7	0.7	0.6	0.4	0.4	0.3
ROE	9.2%	-5.6%	23.0%	44.2%	8.5%	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 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	2,117,609	1,780,874	1,662,366
<b>Gross Profit</b>	<b>36,017</b>	<b>12,227</b>	<b>54,609</b>	<b>109,616</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>95,144</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	21,526	3,866	3,866
Finance Cost	8,987	13,427	10,242	5,182	10,369	8,929
<b>Profit Before Tax</b>	<b>17,477</b>	<b>-5,134</b>	<b>44,056</b>	<b>112,714</b>	<b>28,875</b>	<b>34,335</b>
Taxation	6,890	1,332	14,917	35,305	10,543	12,993
<b>Profit After Tax</b>	<b>10,587</b>	<b>-6,466</b>	<b>29,139</b>	<b>77,409</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	530,193	476,913	466,373
<b>Total Assets</b>	<b>417,080</b>	<b>342,872</b>	<b>379,260</b>	<b>583,106</b>	<b>535,138</b>	<b>530,279</b>
Non-Current liabilities	7,528	12,461	12,239	7,330	7,477	7,626
Current liabilities	290,371	217,350	227,043	365,430	304,147	284,838
<b>Total Liabilities</b>	<b>297,899</b>	<b>229,811</b>	<b>239,281</b>	<b>372,760</b>	<b>311,624</b>	<b>292,464</b>
Equity	119,181	113,061	139,978	210,346	223,514	237,814
<b>Total Equity &amp; liabilities</b>	<b>417,080</b>	<b>342,872</b>	<b>379,260</b>	<b>583,106</b>	<b>535,138</b>	<b>530,279</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	10,587	-6,466	29,139	77,409	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	59,513	8,290	32,893
Investing Cash Flow	<b>-12,498</b>	<b>50,920</b>	<b>18,750</b>	<b>60,185</b>	<b>8,002</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>99,585</b>	<b>-16,805</b>	<b>20,362</b>
Beginning Cash	-43	-722	-1,732	92,544	-21,969	13,320
<b>Closing cash</b>	<b>4,593</b>	<b>3,872</b>	<b>2,139</b>	<b>94,683</b>	<b>72,714</b>	<b>86,035</b>

Source: Company Accounts, Akseer Research

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