

PSO

A scrip with growth potential, offering a return of 55%

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We initiate our coverage on Pakistan State Oil Company Limited (PSO) with a DCF based Dec-22 TP of Rs.250 which provides an upside potential of 55%. Further, the scrip also provides a dividend yield of 14% which makes the total return of 69%

Sales increased from 1,109bn to 1,204bn in FY21, registering a growth of 9%. Furthermore, PSO is the largest supplier of LNG in the country with a supply base of 6.75 million tons per annum

Going forward, we expect the company's revenues to grow at a 5-year CAGR of 20% to Rs2,505bn by FY26 amid ease in lockdowns and upcoming expansion of the economy

Company Overview

Pakistan State Oil Company Limited (PSOCL) is the largest oil marketing company of Pakistan with a widespread network comprising of 3,500+ retail outlets, 9 installations, 23 depots, refueling facilities at 10 airports, with two state-of-the-art lubricant manufacturing facilities, and LPG storage & bottling facilities.

Substantial Growth in Sales

PSO closed FY21 with all-time high gross revenue of PKR 1.4 trillion and a profit after tax of PKR 29.1 billion compared to a loss after tax of PKR 6.5 billion in the preceding year. The net profit translated into earnings per share of PKR 62.07 vs a loss per share of PKR 13.77 in FY20. PSO grew by 21.9% in liquid fuels over last year with volumes reaching 9.2 million tons, attaining a market share of 46.3% in FY21. The company also achieved the highest ever volume of 7.6 million tons in the white oil segment despite the shrinking jet fuel and kerosene oil industry, with a market share of 45.2% in FY21. Going forward, we expect the company's revenues to grow at a 5-year CAGR of 20% to Rs2,505bn by FY26 amid ease in lockdowns and upcoming expansion of the economy.

Largest Supplier of LNG in the Country

PSO also entered into an agreement with Qatar Petroleum under the G2G arrangement to supply an additional 3 million tons per annum of LNG for a period of 10 years. This contract shall add additional volumes to an already executed 15-year long-term sales purchase agreement (SPA), making PSO the largest supplier of LNG in the country with a supply base of 6.75 million tons per annum.

Growth in Automobile Sector

New entrants in the automobile sector amplified customers' purchasing power, resulting in automobile growth during the period of FY21. Furthermore, the Pakistani Auto market in 2021 rises by 89.8% with 242,886 units. Meanwhile, the number of units sold till Dec-21 has already reached 114,765. These factors played a significant role in the substantial upsurge in demand for white oil and this growth is expected to continue and will play a vital role in substantial growth of PSO Sales.

Debt Obligations and Circular Debts

Circular debt is a major issue of PSO and the severity of it can be seen as the account receivable is around 67% of total current assets and around 18% of sales amounting to Rs. 220bn. Meanwhile the accounts payable is about 74% of total current liabilities and 15% of COGS amounting to Rs. 167bn. Trade debts include an aggregate amount of Rs. 183bn due from GENCO Holding Company Limited

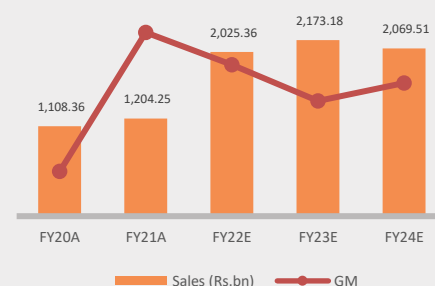
Key Statistics

Symbol	PSO
TP - Dec 22	250.00
LDCP	162.35
Upside (%)	55.00
Free Float ('mn)	211
Market Cap. (Rs.'mn)	76,285

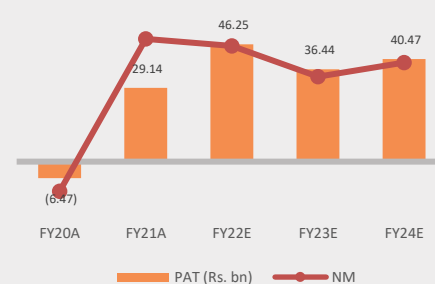
PSO vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials, PSX.

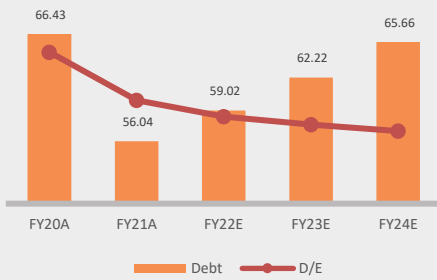
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Key Statistics

Debt (Rs'bn) vs D/E



(GENCO), Hub Power Company Limited (HUBCO), and Sui Northern Gas Pipelines Company Limited (SNGPL). On the bright side, The Petroleum Division has forwarded a proposal to tackle the growing concern of the oil sector regarding the pressure on their working capital. The upcoming federal cabinet's economic coordination committee (ECC) may grant its approval to implement a mechanism of fortnightly reimbursement of Price Differential Claims (PDCs) of the oil marketing companies (OMCs) and refineries in order to avert shortage of petroleum products. Furthermore, the debt to equity ratio has been reduced to 0.4x with respect to an average of 0.63x for the last three years which makes it less affected during the monetary tightening cycle.

Valuation

PSO is currently trading at FY22E P/E of 1.65x. Furthermore, the scrip is also trading at FY22A P/B of 0.44x which offers a discount of 30% relative to its historical 3-year average of 0.62x. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs.250 which provides an upside potential of 55%. Further, the scrip also provides a dividend yield of 14% which makes the total return of 69%.

Key Risks to Valuation

- Unexpected inventory gains and losses
- Prolonging circular debts
- Less than expected growth in demand

Sources: ACPL Research, Company Financials.

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	1,154,298	1,108,358	1,204,247	2,025,364	2,173,181	2,069,515	2,278,863
Cost of sales	-1,118,281	-1,096,131	-1,149,638	-1,949,608	-2,111,379	-2,001,445	-2,201,217
Gross profit	36,017	12,227	54,609	75,756	61,802	68,070	77,645
Distribution cost	-9,912	-11,490	-11,833	-12,392	-13,296	-12,662	-13,943
Administrative expenses	-2,502	-3,148	-3,057	-3,164	-3,394	-3,233	-3,560
Other operating expenses	-4,699	-51	-4,829	-7,309	-7,843	-7,469	-8,224
Profit from operations	18,904	-2,461	34,890	52,891	37,269	44,707	51,919
Other income	7,305	10,210	18,826	22,084	23,696	22,566	24,849
Finance cost	-8,939	-13,427	-10,242	-7,178	-7,550	-7,950	-8,378
Profit before income tax	17,270	-5,678	43,474	67,798	53,415	59,323	68,389
Income tax expense	-6,890	-1,332	-14,917	-21,550	-16,979	-18,857	-21,738
Profit for the year	10,380	-7,010	28,558	46,247	36,436	40,466	46,651
EPS	22.11	(14.93)	60.83	98.51	77.61	86.20	99.37
EBITDA	20,032	-848	36,646	54,517	39,114	46,836	54,440

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	8.5%	-4.0%	8.7%	68.2%	7.3%	-4.8%	10.1%
Cost of sales	9.2%	-2.0%	4.9%	69.6%	8.3%	-5.2%	10.0%
Gross profit	-9.1%	-66.1%	346.6%	38.7%	-18.4%	10.1%	14.1%
Distribution cost	8.2%	15.9%	3.0%	4.7%	7.3%	-4.8%	10.1%
Administrative expenses	-9.7%	25.8%	-2.9%	3.5%	7.3%	-4.8%	10.1%
Other operating expenses	41.0%	-98.9%	9399.2%	51.4%	7.3%	-4.8%	10.1%
Profit from operations	-22.4%	-113.0%	-1517.6%	51.6%	-29.5%	20.0%	16.1%
Other income	-2.6%	39.8%	84.4%	17.3%	7.3%	-4.8%	10.1%
Finance cost	74.5%	50.2%	-23.7%	-29.9%	5.2%	5.3%	5.4%
Profit before income tax	-35.7%	-129.4%	-958.1%	53.9%	-21.2%	11.1%	15.3%
Income tax expense	-41.1%	-80.7%	1020.3%	44.5%	-21.2%	11.1%	15.3%
Profit for the year	-31.5%	-161.1%	-550.7%	58.7%	-21.2%	11.1%	15.3%
EPS	-31.5%	-161.1%	-550.7%	58.7%	-21.2%	11.1%	15.3%
EBITDA	0.0%	-104.2%	-4421.5%	48.8%	-28.3%	19.7%	16.2%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	3.12	1.10	4.53	3.74	2.84	3.29	3.41
NP Margin	%	0.92	-0.58	2.42	2.28	1.68	1.96	2.05
OP Margin	%	1.64	-0.22	2.90	2.61	1.71	2.16	2.28
ROE	%	8.88	-5.72	20.82	26.42	17.98	17.34	17.36
ROCE	%	14.92	-1.97	22.92	31.29	19.97	21.26	21.76
ROA	%	2.54	-1.89	7.68	8.97	6.51	7.09	7.38
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.32	1.35	1.44	1.36	1.37	1.45	1.48
Quick	x	0.97	1.03	1.07	0.91	0.93	1.02	1.04
Activity Ratios		FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	13.06	14.93	16.88	17.78	14.45	13.53	14.56
Inventory Days		27.95	24.45	21.63	20.53	25.25	26.98	25.07
Receivables Days		18.33	7.83	5.79	10.58	10.58	10.58	10.58
Payables Days		58.76	49.10	53.24	53.24	53.24	53.24	53.24
Operating Cycle		-12.49	-16.81	-25.82	-22.14	-17.41	-15.68	-17.60
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
DPS		15.00	0.00	15.00	24.00	19.00	21.00	24.00
Div. Yield	%	9.24	0.00	9.24	14.78	11.70	12.94	14.78
Dividend Cover	x	1.50	0.00	4.14	4.10	4.08	4.10	4.14
Retention	%	33.48	100.00	75.83	75.83	75.83	75.83	75.83
Payout	%	66.52	0.00	24.17	24.17	24.17	24.17	24.17
No. of Shares	('m)	0.47	0.47	0.47	0.47	0.47	0.47	0.47
EPS		22.55	-13.77	62.07	98.51	77.61	86.20	99.37
BVPS		253.86	240.83	298.16	372.86	431.72	497.08	572.44
P/E	x	7.20	-11.79	2.62	1.65	2.09	1.88	1.63
Sales per share		2459	2361	2565	4314	4629	4408	4854
P/BV	x	0.64	0.67	0.54	0.44	0.38	0.33	0.28
P/S	x	0.07	0.07	0.06	0.04	0.04	0.04	0.03
Solvency Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.90	0.59	0.40	0.34	0.31	0.28	0.26
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	2.11	-0.18	3.41	7.37	4.94	5.62	6.20

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DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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