Foundation Securities
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Foundation Alert

PSO: Analyst Briefing Takeaways

Event

- Pakistan State Oil (PSO PA) held its 9MFY22 Analyst Briefing today. Key takeaways are as follows:

Impact

- Company reported record profit of Rs64.8bn in 9MFY22 as compared Rs18.2bn SPLY, with an unconsolidated EPS of Rs137.96/sh in 9MFY22 compared to Rs38.86/sh in 9MFY21. Moreover, quarterly EPS clocked in at Rs69.4/sh, against Rs18.57/sh in 3QFY21.
- Management attributed increase in company's profitability to (1) increased volumes, (2) higher inventory gain and (3) higher other income due to increased penal income (↑ 15.7x).
- PSO net sales increased by 99% YoY in 3QFY22 attributable to (1) 26% YoY increase in volumes and (2) 36/27% YoY higher MS/HSD prices.
- MS, HSD and FO volumes of PSO recorded increase of 15/44/5% YoY in 3QFY22.
- The company recorded a gross profit of Rs43.9bn in 3QFY22 (up by 155% YoY) against Rs17.3bn in 3QFY21 due to (1) inventory gains during the quarter under review, (2) 26% YoY higher volumes and (3) revision of OMC margin of MS/HSD from mid-Dec'21.
- Overall, in 9MFY22 oil industry volumes went up by 13.6% YoY on the back of increase in White Oil (↑ 13.6% due to increase in HSD/MS/JP1 by 17.8/8.8/43.7%) and Black Oil demand (↑13.9%).
- PSO market share of MS/HSD/black oil increased by 2.1/3.2/3.7ppt YoY to 43.5/50.4/56.5% in 9MFY22. Petroleum products consumption in Pakistan increased by 13.6% YoY in 9MFY22 whereas PSO's volumes increased by 22%.
- PSO added 39 new fuel outlets during the year to ensure continuous supply of liquid fuels across the country.
- Moreover, the government has completely settled PDL with PSO.
- As per management, petroleum product prices will remain high until August, when they may begin to fall depending on the easing of geopolitical tensions. Whereas, demand will not increase with same % as of this year.
- Management expects that in FY23, HSD would grow by 3-3.5% whereas MS would grow by 4%.
- PSO has 20 days of inventory which goes up to 25-30 days in winters.
- Management stated that current credit terms for imported fuel/Local refinery is around 30/21days.
- Currently, FO demand is around 300k-400k mt per month whereas PSO has 200k mt product available in storage. If coal & gas prices tame down and hydel power is available, FO demand would normalize. Management is looking for similar patterns in demand next year.
- Management mentioned PRL would be upgraded with cost estimate of US$0.5-1.2bn and its feed stage studies will take 8-10 months. Management is committed to support PRL in raising funds for expansion.

Outlook

- Increasing profitability of white oil segment given robust demand would bode well for company's profitability. However, buildup of LNG and Power Sector receivables amid elevated oil prices would create cash flow concerns going forward.

Fig 1: PSO 3QFY22 Financial Highlights

Rs (mn)	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Sales - net	567,950	285,529	99%	9%	1,549,923	852,962	82%
COGS	524,041	268,279	95%	6%	1,457,298	815,222	79%
Gross profit	**43,909**	**17,251**	**155%**	**65%**	**92,625**	**37,740**	**145%**
Other Income	11,620	740	1470%	30%	22,328	5,152	333%
Operating expenses	8,316	4,136	101%	50%	19,401	13,646	42%
Operating profit	**47,213**	**13,855**	**241%**	**57%**	**95,551**	**29,246**	**227%**
Finance cost	1,271	1,064	19%	62%	2,681	2,502	7%
Sh of profit from associates	299	134	123%	104%	560	429	30%
Profit before tax	**46,242**	**12,925**	**258%**	**57%**	**93,430**	**27,174**	**244%**
Taxation	13,661	4,205	225%	49%	28,661	8,932	221%
Profit after tax	**32,580**	**8,720**	**274%**	**61%**	**64,769**	**18,242**	**255%**
EPS	**69.40**	**18.57**			**137.96**	**38.86**	
GP margins	7.73%	6.04%			5.98%	4.42%	
NP margins	5.74%	3.05%			4.18%	2.14%	
Effective tax rate	29.54%	32.53%			30.68%	32.87%	

Source: PSX, Company Accounts, Foundation Research, June 2022

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If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.