

Earning Review

PSO: 2QFY23 loss clocked in at Rs9.71/sh

Event

- Pakistan State Oil (PSO PA) announced its 2QFY23 financial result with an unconsolidated loss of Rs9.71/sh compared to profit of Rs43.02/sh in 2QFY22. This cumulated into LPS of Rs7.16 in 1HFY23 against EPS of Rs68.56 in 1HFY22.

Impact

- We attribute decrease in company's profitability to (1) lower volumes of MS/HSD/FO, (2) inventory losses and (3) higher late payment surcharges.
- PSO net sales surged by 61% YoY in 2QFY23 attributable to higher MS/HSD/FO prices by 65/72/47% YoY. However, MS/HSD/FO volumes declined by 10/2/55% YoY as demand declined amid higher prices and economic slowdown.
- The company recorded a gross profit of Rs4.8bn in 2QFY23 (down by 82% YoY) against Rs26.7bn in 2QFY22 due to (1) inventory losses during the quarter under review and (2) 10% YoY lower volumes despite higher OMC margins of MS/HSD (up 28/35% YoY).
- Other income declined by 65% YoY due to lower penal income, in our view.
- In 2QFY23, operating expense decreased by 20% YoY as other expenses recorded reversal of Rs272mn in 2QFY23 vs expense of Rs2.3bn in 2QFY22. We believe this is due to lower Workers Profit Participation Fund/Workers Welfare Fund amid lower profitability.
- Finance cost increased by 9.8x YoY to Rs7.7bn in 2QFY23 due to (1) higher domestic interest rates and LIBOR, (2) higher debt servicing as ST Debt increased by 60% YoY as of Sep'30, 2022 amid higher foreign currency borrowing and (3) higher late payment surcharges, in our view.
- Tax expense declined by 93% YoY in 2QFY23 given Loss before tax.

Outlook

- We have an "Outperform" stance on the stock as revision in OMC margins and lower buildup of receivables amid circular debt management plan would bode well for company's profitability.

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Fig1: PSO 2QFY23 Financial Highlights

Rs (mn)	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales - net	843,000	522,749	61%	-2%	1,705,264	981,973	74%
COGS	838,159	496,086	69%	-2%	1,693,703	933,257	81%
Gross profit	4,841	26,663	-82%	-28%	11,561	48,716	-76%
Other Income	3,158	8,921	-65%	-51%	9,607	10,707	-10%
Operating expenses	4,458	5,560	-20%	-3%	9,056	11,085	-18%
Operating profit	3,541	30,024	-88%	-59%	12,112	48,338	-75%
Finance cost	7,665	784	877%	60%	12,460	1,410	784%
Sh of profit from associates	242	147	65%	4%	474	260	82%
Profit before tax	(3,881)	29,386	na	na	126	47,188	-100%
Taxation	678	9,191	-93%	-76%	3,487	14,999	-77%
Profit after tax	(4,559)	20,195	na	na	(3,361)	32,189	na
EPS	(9.71)	43.02			(7.16)	68.56	
GP margins	0.57%	5.10%			0.68%	4.96%	
NP margins	-0.54%	3.86%			-0.20%	3.28%	
Effective tax rate	-17.46%	31.28%			2765.72%	31.79%	

Source: PSX, Company Accounts, Foundation Research, February 2023

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Recommendations definitions

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