

Equity Research | Oil & Gas Marketing Companies | Friday, 17 February, 2023

PSO has announced its 2QFY23 result where it posted a loss after tax of Rs4.56bn (LPS: Rs9.71) as compared to a profit after tax of Rs20.20bn (EPS: Rs43.02) in the same period last year, down by 122.6% YoY majorly because of huge inventory losses.

The company has posted a net sale of Rs843bn against Rs523bn in SPLY, recording a growth of 61.3% YoY. We note that this increase is attributed to the increased prices.

Furthermore, the operating and selling expense has increased to 4.76bn as compared to 3.59bn during SPLY up by 30.3%.

Other income has dropped significantly by 64.6% YoY to 3.16bn compared to 8.92bn during SPLY. Moreover, finance cost has surged by 8.8x to 7.67 bn compared to 0.78bn SPLY.

PSO is currently trading at FY23E PE of 2.15x. Furthermore, the scrip is trading at a FY23E P/B of 0.25x which offers a discount of 39% relative to its historical 3-year average of 0.41x. We recommend our investors to **BUY** the scrip with DCF-based Dec-23 TP of Rs.155 which provides an upside potential of 22%. Furthermore, it also offers a dividend yield of 5% which makes a total return of 27%.

| Rupees' millions | 2QFY23 | 2QFY22 | YoY | 1HFY23 | 1HFY22 | YoY |
|------------------------------|----------|----------|----------|------------|----------|-----------|
| Net Sales | 843,000 | 522,749 | 61.3% ▲ | 1,705,264 | 981,973 | 73.7% ▲ |
| Cost of Sales | -838,159 | -496,086 | 69.0% ▲ | -1,693,703 | -933,257 | 81.5% ▲ |
| Gross Profit | 4,841 | 26,663 | 81.8% ▼ | 11,561 | 48,716 | 76.3% ▼ |
| SG&A Expenses | -4,673 | -3,586 | 30.3% ▲ | -8,753 | -7,542 | 16.1% ▲ |
| Operating Profit | 383 | 21,102 | 98.2% ▼ | 2,505 | 37,631 | 93.3% ▼ |
| Other Income | 3,158 | 8,921 | 64.6% ▼ | 9,607 | 10,707 | 10.3% ▼ |
| Share of profit of associate | 242 | 147 | 64.5% ▲ | 474 | 260 | 82.1% ▲ |
| Finance Cost | -7,665 | -784 | 877.1% ▲ | -12,460 | -1,410 | 783.6% ▲ |
| Profit Before Taxation | -3,881 | 29,386 | 113.2% ▼ | 126 | 47,188 | 99.7% ▼ |
| Taxation | -678 | -9,191 | 92.6% ▼ | -3,487 | -14,999 | 76.8% ▼ |
| Profit After Taxation | -4,559 | 20,195 | 122.6% ▼ | -3,361 | 32,189 | 110.4% ▼ |
| Earnings Per Share | -9.71 | 43.02 | 122.6% ▼ | -7.16 | 68.56 | 110.4% ▼ |
| Dividend | 0.00 | 0.00 | | 0.00 | 0.00 | |
| Bonus | - | - | | - | - | |
| Gross Margin | 0.6% | 5.1% | 4.5% ▼ | 0.7% | 5.0% | 4.3% ▼ |
| SG&A Expenses to Sales | -0.6% | -0.7% | 0.1% ▼ | -0.5% | -0.8% | 0.3% ▼ |
| Other Income to Sales | 0.4% | 1.7% | 1.3% ▼ | 0.6% | 1.1% | 0.5% ▼ |
| Share of profit of associate | 0.0% | 0.0% | 0.0% ▲ | 0.0% | 0.0% | 0.0% ▲ |
| Effective Taxation | 17.5% | -31.3% | 13.8% ▼ | -2765.7% | -31.8% | 2733.9% ▲ |
| Net Margin | -0.5% | 3.9% | 4.4% ▼ | -0.2% | 3.3% | 3.5% ▼ |

Source: ACPL Research, Company Financials

Key Statistics

| | |
|---------------------|--------|
| Symbol | PSO |
| TP - Dec 23 | 155 |
| LDCP | 127.50 |
| Upside | 22% |
| Free Float (mn) | 211 |
| Market Cap. (Rs.mn) | 61,501 |

PSO vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

| Rupees' millions | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------------------|---------------|---------------|----------------|---------------|----------------|----------------|----------------|
| Revenue | 1,108,358 | 1,204,247 | 2,451,581 | 3,406,491 | 3,862,241 | 4,478,635 | 5,335,818 |
| Cost of sales | -1,096,131 | -1,149,638 | -2,290,586 | -3,310,719 | -3,743,004 | -4,337,747 | -5,149,422 |
| Gross profit | 12,227 | 54,609 | 160,995 | 95,772 | 119,237 | 140,887 | 186,396 |
| Distribution cost | -11,490 | -11,833 | -12,634 | -17,555 | -19,904 | -23,080 | -27,498 |
| Administrative expenses | -3,148 | -3,057 | -4,178 | -5,806 | -6,582 | -7,633 | -9,094 |
| Other operating expenses | -51 | -4,829 | -17,114 | -23,781 | -26,962 | -31,265 | -37,249 |
| Profit from operations | -2,461 | 34,890 | 127,069 | 48,631 | 65,789 | 78,909 | 112,556 |
| Other income | 10,210 | 18,826 | 24,813 | 20,439 | 23,173 | 26,872 | 32,015 |
| Finance cost | -13,427 | -10,242 | -4,721 | -24,304 | -29,411 | -24,923 | -20,810 |
| Profit before income tax | -5,678 | 43,474 | 147,161 | 44,767 | 59,551 | 80,858 | 123,761 |
| Income tax expense | -1,332 | -14,917 | -61,633 | -16,948 | -22,545 | -30,612 | -46,854 |
| Profit for the year | -7,010 | 28,558 | 85,529 | 27,819 | 37,006 | 50,247 | 76,907 |
| EPS | (14.93) | 60.83 | 182.18 | 59.26 | 78.82 | 107.03 | 163.82 |
| EBITDA | -848 | 36,646 | 129,312 | 50,956 | 68,570 | 82,261 | 116,636 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------------------|----------------|-----------------|---------------|---------------|--------------|--------------|--------------|
| Revenue | -4.0% | 8.7% | 103.6% | 39.0% | 13.4% | 16.0% | 19.1% |
| Cost of sales | -2.0% | 4.9% | 99.2% | 44.5% | 13.1% | 15.9% | 18.7% |
| Gross profit | -66.1% | 346.6% | 194.8% | -40.5% | 24.5% | 18.2% | 32.3% |
| Distribution cost | 15.9% | 3.0% | 6.8% | 39.0% | 13.4% | 16.0% | 19.1% |
| Administrative expenses | 25.8% | -2.9% | 36.7% | 39.0% | 13.4% | 16.0% | 19.1% |
| Other operating expenses | -98.9% | 9399.2% | 254.4% | 39.0% | 13.4% | 16.0% | 19.1% |
| Profit from operations | -113.0% | -1517.6% | 264.2% | -61.7% | 35.3% | 19.9% | 42.6% |
| Other income | 39.8% | 84.4% | 31.8% | -17.6% | 13.4% | 16.0% | 19.1% |
| Finance cost | 50.2% | -23.7% | -53.9% | 414.8% | 21.0% | -15.3% | -16.5% |
| Profit before income tax | -129.4% | -958.1% | 235.6% | -69.7% | 33.0% | 35.8% | 53.1% |
| Income tax expense | -80.7% | 1020.3% | 313.2% | -72.5% | 33.0% | 35.8% | 53.1% |
| Profit for the year | -161.1% | -550.7% | 195.9% | -67.7% | 33.0% | 35.8% | 53.1% |
| EPS | -161.1% | -550.7% | 195.9% | -67.7% | 33.0% | 35.8% | 53.1% |
| EBITDA | | -4421.5% | 252.9% | -60.6% | 34.6% | 20.0% | 41.8% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|----------------------|------|--------|--------|--------|--------|--------|--------|--------|
| GP Margin | % | 1.10 | 4.53 | 6.57 | 2.81 | 3.09 | 3.15 | 3.49 |
| NP Margin | % | -0.58 | 2.42 | 3.52 | 0.82 | 0.96 | 1.12 | 1.44 |
| OP Margin | % | -0.22 | 2.90 | 5.18 | 1.43 | 1.70 | 1.76 | 2.11 |
| ROE | % | -5.72 | 20.82 | 39.98 | 11.58 | 13.57 | 15.86 | 20.00 |
| ROCE | % | -1.97 | 22.92 | 54.72 | 20.51 | 27.25 | 30.06 | 36.02 |
| ROA | % | -1.89 | 7.68 | 9.59 | 2.30 | 2.89 | 3.52 | 4.64 |
| Liquidity Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
| Current | x | 1.35 | 1.44 | 1.27 | 1.19 | 1.18 | 1.18 | 1.19 |
| Quick | x | 1.03 | 1.07 | 0.75 | 0.90 | 0.87 | 0.86 | 0.87 |
| Activity Ratios | | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E |
| Inventory Turnover | x | 14.93 | 16.88 | 10.89 | 10.64 | 12.51 | 12.66 | 13.03 |
| Inventory Days | | 24.45 | 21.63 | 33.53 | 34.32 | 29.17 | 28.84 | 28.02 |
| Receivables Days | | 7.83 | 5.79 | 8.56 | 8.56 | 8.56 | 8.56 | 8.56 |
| Payables Days | | 49.10 | 53.24 | 78.69 | 83.60 | 83.60 | 83.60 | 83.60 |
| Operating Cycle | | -16.81 | -25.82 | -36.60 | -40.72 | -45.87 | -46.21 | -47.02 |
| Investment Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
| DPS | | 0.00 | 15.00 | 10.00 | 7.00 | 9.00 | 13.00 | 20.00 |
| Div. Yield | % | 0.00 | 11.76 | 7.84 | 5.49 | 7.06 | 10.20 | 15.69 |
| Dividend Cover | x | 0.00 | 4.14 | 18.37 | 8.47 | 8.76 | 8.23 | 8.19 |
| Retention | % | 100.00 | 75.83 | 94.56 | 88.00 | 88.00 | 88.00 | 88.00 |
| Payout | % | 0.00 | 24.17 | 5.44 | 12.00 | 12.00 | 12.00 | 12.00 |
| No. of Shares | ('m) | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 | 0.47 |
| EPS | | -13.77 | 62.07 | 183.66 | 59.26 | 78.82 | 107.03 | 163.82 |
| BVPS | | 240.83 | 298.16 | 459.34 | 511.49 | 580.85 | 675.04 | 819.20 |
| P/E | x | -9.26 | 2.05 | 0.69 | 2.15 | 1.62 | 1.19 | 0.78 |
| Sales per share | | 2361 | 2565 | 5222 | 7256 | 8227 | 9540 | 11366 |
| P/BV | x | 0.53 | 0.43 | 0.28 | 0.25 | 0.22 | 0.19 | 0.16 |
| P/S | x | 0.05 | 0.05 | 0.02 | 0.02 | 0.02 | 0.01 | 0.01 |
| Solvency Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
| Total Debt to Equity | x | 0.59 | 0.40 | 0.72 | 0.87 | 0.66 | 0.54 | 0.42 |
| L.T Debt to Equity | x | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest Cover | x | -0.18 | 3.41 | 26.92 | 2.00 | 2.24 | 3.17 | 5.41 |

Source: ACPL Research, Company Financials

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

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| Stock Rating | Expected Total Return |
|--------------|----------------------------|
| 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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