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PSO has announced its 3QFY23 result where it posted a profit after tax of Rs13.65bn (EPS: Rs29.07) as compared to a profit after tax of Rs32.58bn (EPS: Rs69.40) in the same period last year, down by 58.1% YoY majorly because of huge inventory losses.

The company has posted net sales of Rs811.69bn against Rs567.95bn in SPLY, recording a growth of 42.9% YoY. We note that this increase is attributed to the increase in prices.

Furthermore, the operating and selling expenses have increased to Rs5.47bn as compared to Rs3.93bn during SPLY up by 39.1%.

Other income has plunged by 83.3% YoY to Rs1.94bn compared to Rs11.62bn during SPLY. Moreover, finance cost has surged by 9x to Rs12.68bn due to higher borrowings and increase in interest rates.

PSO is currently trading at FY23E PE of 3.82x. Furthermore, the scrip is trading at a FY23E P/B of 0.24x which offers a discount of 36% relative to its historical 3-year average of 0.37x. We recommend our investors to **BUY** the scrip with DCF-based Dec-23 TP of Rs145 which provides an upside potential of 25%. Furthermore, it also offers a dividend yield of 3% which makes a total return of 28%.

Rupees' millions	3QFY23	3QFY22	YoY	9MFY23	9MFY22	YoY
Net Sales	811,689	567,950	42.9% ▲	2,516,953	1,549,923	62.4% ▲
Cost of Sales	-765,025	-524,041	46.0% ▲	-2,458,727	-1,457,298	68.7% ▲
Gross Profit	46,665	43,909	6.3% ▲	58,226	92,625	37.1% ▼
SG&A Expenses	-5,471	-3,934	39.1% ▲	-14,224	-11,476	23.9% ▲
Operating Profit	38,973	35,593	9.5% ▲	41,478	73,224	43.4% ▼
Other Income	1,938	11,620	83.3% ▼	11,545	22,328	48.3% ▼
Share of profit of associate	-1,486	299	596.2% ▼	-1,012	560	280.7% ▼
Finance Cost	-12,682	-1,271	897.7% ▲	-25,143	-2,681	837.7% ▲
Profit Before Taxation	26,742	46,242	42.2% ▼	26,868	93,430	71.2% ▼
Taxation	-13,096	-13,661	4.1% ▼	-16,583	-28,661	42.1% ▼
Profit After Taxation	13,646	32,580	58.1% ▼	10,285	64,769	84.1% ▼
Earnings Per Share	29.07	69.40	58.1% ▼	21.91	137.96	84.1% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	-	-		-	-	
Gross Margin	5.7%	7.7%	2.0% ▼	2.3%	6.0%	3.7% ▼
SG&A Expenses to Sales	-0.7%	-0.7%	0.0% ▼	-0.6%	-0.7%	0.2% ▼
Other Income to Sales	0.2%	2.0%	1.8% ▼	0.5%	1.4%	1.0% ▼
Share of profit of associate	-0.2%	0.1%	0.1% ▲	0.0%	0.0%	0.0% ▲
Effective Taxation	-49.0%	-29.5%	19.4% ▲	-61.7%	-30.7%	31.0% ▲
Net Margin	1.7%	5.7%	4.1% ▼	0.4%	4.2%	3.8% ▼

Key Statistics

Symbol	PSO
TP - Dec 23	145
LDLCP	115.90
Upside	25%
Free Float (mn)	211
Market Cap. (Rs.mn)	62,846

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	3,356,002	3,916,116	4,521,372	5,191,055
Cost of sales	-1,096,131	-1,149,638	-2,290,586	-3,278,358	-3,824,905	-4,415,264	-5,058,474
Gross profit	12,227	54,609	160,995	77,643	91,211	106,107	132,581
Distribution cost	-11,490	-11,833	-12,634	-13,866	-16,180	-18,680	-28,551
Administrative expenses	-3,148	-3,057	-4,178	-5,101	-5,952	-6,872	-7,890
Other operating expenses	-51	-4,829	-17,114	-3,365	-3,927	-4,534	-5,205
Profit from operations	-2,461	34,890	127,069	55,312	65,153	76,022	90,935
Other income	10,210	18,826	24,813	15,393	19,959	25,350	31,752
Finance cost	-13,427	-10,242	-4,721	-33,477	-49,973	-51,081	-51,405
Profit before income tax	-5,678	43,474	147,161	37,228	35,140	50,291	71,283
Income tax expense	-1,332	-14,917	-61,633	-22,977	-16,078	-23,010	-32,615
Profit for the year	-7,010	28,558	85,529	14,251	19,062	27,280	38,668
EPS	(14.93)	60.83	182.18	30.35	40.60	58.11	82.36
EBITDA	-848	36,646	129,312	57,637	67,934	79,373	95,016

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-4.0%	8.7%	103.6%	36.9%	16.7%	15.5%	14.8%
Cost of sales	-2.0%	4.9%	99.2%	43.1%	16.7%	15.4%	14.6%
Gross profit	-66.1%	346.6%	194.8%	-51.8%	17.5%	16.3%	24.9%
Distribution cost	15.9%	3.0%	6.8%	9.7%	16.7%	15.5%	52.8%
Administrative expenses	25.8%	-2.9%	36.7%	22.1%	16.7%	15.5%	14.8%
Other operating expenses	-98.9%	9399.2%	254.4%	-80.3%	16.7%	15.5%	14.8%
Profit from operations	-113.0%	-1517.6%	264.2%	-56.5%	17.8%	16.7%	19.6%
Other income	39.8%	84.4%	31.8%	-38.0%	29.7%	27.0%	25.3%
Finance cost	50.2%	-23.7%	-53.9%	609.2%	49.3%	2.2%	0.6%
Profit before income tax	-129.4%	-958.1%	235.6%	-74.8%	-5.6%	43.1%	41.7%
Income tax expense	-80.7%	1020.3%	313.2%	-62.7%	-30.0%	43.1%	41.7%
Profit for the year	-161.1%	-550.7%	195.9%	-83.5%	33.8%	43.1%	41.7%
EPS	-161.1%	-550.7%	195.9%	-83.5%	33.8%	43.1%	41.7%
EBITDA		-4421.5%	252.9%	-55.4%	17.9%	16.8%	19.7%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	1.10	4.53	6.57	2.31	2.33	2.35	2.55
NP Margin	%	-0.58	2.42	3.52	0.42	0.49	0.60	0.74
OP Margin	%	-0.22	2.90	5.18	1.65	1.66	1.68	1.75
ROE	%	-5.72	20.82	39.98	6.25	7.78	10.14	12.76
ROCE	%	-1.97	22.92	54.72	25.80	35.88	48.91	65.24
ROA	%	-1.89	7.68	9.59	1.13	1.40	1.80	2.27
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.35	1.44	1.27	1.16	1.11	1.07	1.05
Quick	x	1.03	1.07	0.75	0.88	0.83	0.79	0.78
Activity Ratios		FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	14.93	16.88	10.89	10.58	12.70	12.63	12.81
Inventory Days		24.45	21.63	33.53	34.50	28.75	28.89	28.49
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	-40.54	-46.30	-46.15	-46.55
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		0.00	15.00	10.00	4.00	5.00	7.00	10.00
Div. Yield	%	0.00	12.94	8.63	3.45	4.31	6.04	8.63
Dividend Cover	x	0.00	4.14	18.37	7.59	8.12	8.30	8.24
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	30.35	40.60	58.11	82.36
BVPS		240.83	298.16	459.34	486.05	521.78	572.92	645.40
P/E	x	-8.42	1.87	0.63	3.82	2.85	1.99	1.41
Sales per share		2361	2565	5222	7148	8342	9631	11057
P/BV	x	0.48	0.39	0.25	0.24	0.22	0.20	0.18
P/S	x	0.05	0.05	0.02	0.02	0.01	0.01	0.01
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	0.59	0.40	0.72	1.27	1.24	1.30	1.33
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	1.65	1.30	1.49	1.77

Source: ACPL Research, Company Financials

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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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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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

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Market Weight	Neutral
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