

Oil Marketing Companies

Outperform

4QFY24 Profitability to be Hindered by Inventory Losses

24 July 2024

- **Significant decrease in MS and HSD Prices.** During the quarter, significant reductions in fuel prices was witnessed, with MS/HSD both resulting in a net decrease in fuel prices by PKR 31/ltr and PKR 14/ltr, respectively. This took MS/HSD ex depot prices at the end of quarter to PKR 258/268/ltr vs PKR 289/282/ltr in 1st FN of Apr-24, respectively.
- **Universe's LAT expected at PKR 3.1 BN in 4QFY24.** Our OMC universe's gross profit is anticipated to fall by PKR 8.9 BN Q/Q, resulting in a gross margin of 2% in Jun-24, due to significant inventory losses. Consequently, the Optimus universe's LAT is expected to be PKR 3.1 BN, further impacted by the significant finance cost estimated to be incurred by PSO.
- **Volumes increased by 2.6% Q/Q in Jun-24.** Our universe's total sales volume reached 2,273 KT in 4QFY24, declining marginally by 1.8% Y/Y to 2,315 KT. The Q/Q increase in volumes was primarily driven by a 11.7% rise in HSD sales due to Kharif sowing season. FO sales, however, plummeted by 45.5% Q/Q / 65.3% Y/Y, due to low power sector demand. It's worth noting that FO sales had surged in Jan-24 due to power transmission constraints and lower hydel flows.
- **APL's EPS to arrive at PKR 20.94 (-13/1% Q/Q / Y/Y).** APL's PAT is expected to be ~PKR 2.6 BN, with a 13% Q/Q decrease in earnings, due to the absence of significant inventory gains realized in 3QFY24. Company is expected to announce a dividend of PKR 9.50/sh, showcasing a lower payout of 18% as compared to its historical payout pattern. APL's dividend is expected to remain muted going forward, amid its significant capex plans in the LPG business.

Y/E: Jun	Jun-24E	FY24E	FY25E	
PKR/sh		EPS		FV
PSO	(12.14)	16.40	62.00	250
APL	20.94	107.59	97.93	510
PKR/sh		DPS		DY%*
PSO	6.56	6.56	17.36	4.0%
APL	9.50	19.50	29.50	4.8%

*DY on FY24E DPS

Source: Optimus Research

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- **PSO's LPS to clock in at PKR 12.14 in Jun-24.** PSO is expected to report a loss of PKR 5.7 BN in 4QFY24, with a dividend of PKR 6.6/sh. The company is anticipated to report inventory losses of ~PKR 10.2 BN, decreasing its gross profit to ~PKR 16.3 BN. The company's net sales are anticipated to reach PKR 906.9 BN (+8% Q/Q, +4% Y/Y), driven by higher sales volumes at 1,893 KT (up 4% Q/Q), primarily due to increased HSD sales during the Kharif sowing season. PSO's profitability is to be dampened by finance cost of ~PKR 12.5 BN in 4QFY24.
- **Outlook.** A possible ceasefire in the current geopolitical situations have resulted in a decrease in international crude prices, which may lead to some reduction in domestic fuel prices in the upcoming fortnights. However, with ongoing energy reforms in the country, PSO is expected to improve its performance moving forward. Anticipated better recovery from RLNG sales to SNGP is likely to enhance its working capital position. Additionally, we anticipate a mild recovery in total energy sales in FY25, due to improved economic activity and a low base in FY24.

Optimus Universe Estimates

PKR MN	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
Net sales	1,039,264	967,255	1,042,660	1,056,521	997,262	7%	4%	4,105,700	3,865,050	6%
Cost of products sold	1,018,896	937,989	1,042,787	987,797	974,348	9%	5%	3,987,469	3,764,133	6%
Gross profit	20,369	29,266	(127)	68,724	22,914	-30%	-11%	118,231	100,917	17%
Other income	3,576	2,506	8,040	3,542	2,352	43%	52%	17,663	15,239	16%
Operating expenses	8,057	7,985	7,549	8,022	8,288	1%	-3%	31,612	29,872	6%
Operating profit	15,887	23,787	364	64,244	16,978	-33%	-6%	104,282	86,284	21%
Finance cost	12,864	15,431	15,485	10,657	15,849	-17%	-19%	54,437	42,621	28%
Finance income	2,128	2,225	2,373	2,043	1,985	-4%	7%	8,768	5,500	59%
Share of associates' profit	410	373	354	438	208	10%	97%	1,575	(611)	n.m
Other expenses	982	673	(62)	4,431	203	46%	384%	6,024	3,800	59%
Profit before tax	4,580	10,281	(12,332)	51,636	3,119	-55%	47%	54,165	44,751	21%
Taxation	7,673	1,653	(734)	24,488	5,117	364%	50%	33,081	26,628	24%
Profit after tax	(3,093)	8,628	(11,598)	27,148	(1,998)	n.m	55%	21,084	18,123	16%
Gross margin	2.0%	3.0%	0.0%	6.5%	2.3%			2.9%	2.6%	
Net margin	-0.3%	0.9%	-1.1%	2.6%	-0.2%			0.5%	0.5%	
Effective tax rate	167.5%	16.1%	5.9%	47.4%	164.1%			61.1%	59.5%	

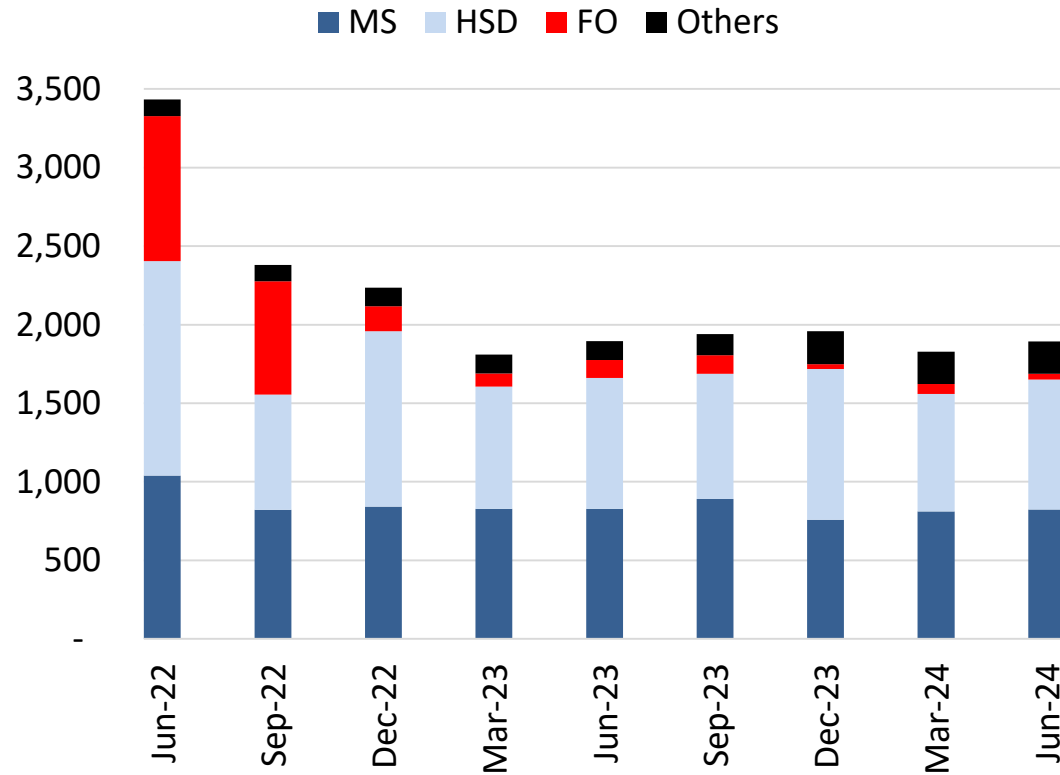
Source: Company Accounts, Optimus Research

Earnings Summary and Margins

PKR/sh	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
EPS										
PSO	(12.14)	12.03	(30.12)	46.62	(9.85)	n.m	23%	16.40	12.06	36%
APL	20.94	23.96	20.42	42.27	21.09	-13%	-1%	107.59	100.15	7%
DPS										
PSO	6.56	-	-	-	7.50	-	-13%	6.56	7.50	-13%
APL	9.50	-	10.00	-	15.00	-	-37%	19.50	27.50	-29%
Margins										
Margins	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
PSO										
Gross margin	1.8%	2.9%	-0.4%	6.4%	1.9%	-1.1%	-0.1%	2.7%	2.2%	0.5%
Operating margin	1.1%	2.2%	-1.1%	5.8%	1.2%	-1.1%	-0.1%	2.0%	1.6%	0.4%
Net margin	-0.6%	0.7%	-1.6%	2.4%	-0.5%	-1.3%	-0.1%	0.2%	0.2%	0.0%
Effective tax rate	n.m	n.m	13.3%	48.9%	n.m	n.m	n.m	n.m	n.m	n.m
APL										
Gross margin	3.1%	3.7%	2.3%	7.5%	5.1%	-0.6%	-2.0%	4.2%	5.5%	-1.3%
Operating margin	2.1%	2.7%	1.7%	5.7%	3.8%	-0.6%	-1.7%	3.1%	3.9%	-0.8%
Net margin	2.0%	2.4%	1.9%	3.9%	2.1%	-0.4%	-0.2%	2.5%	2.6%	-0.1%
Effective tax rate	39.0%	38.9%	36.2%	40.1%	53.3%	0.1%	-14.3%	38.9%	38.9%	0.0%

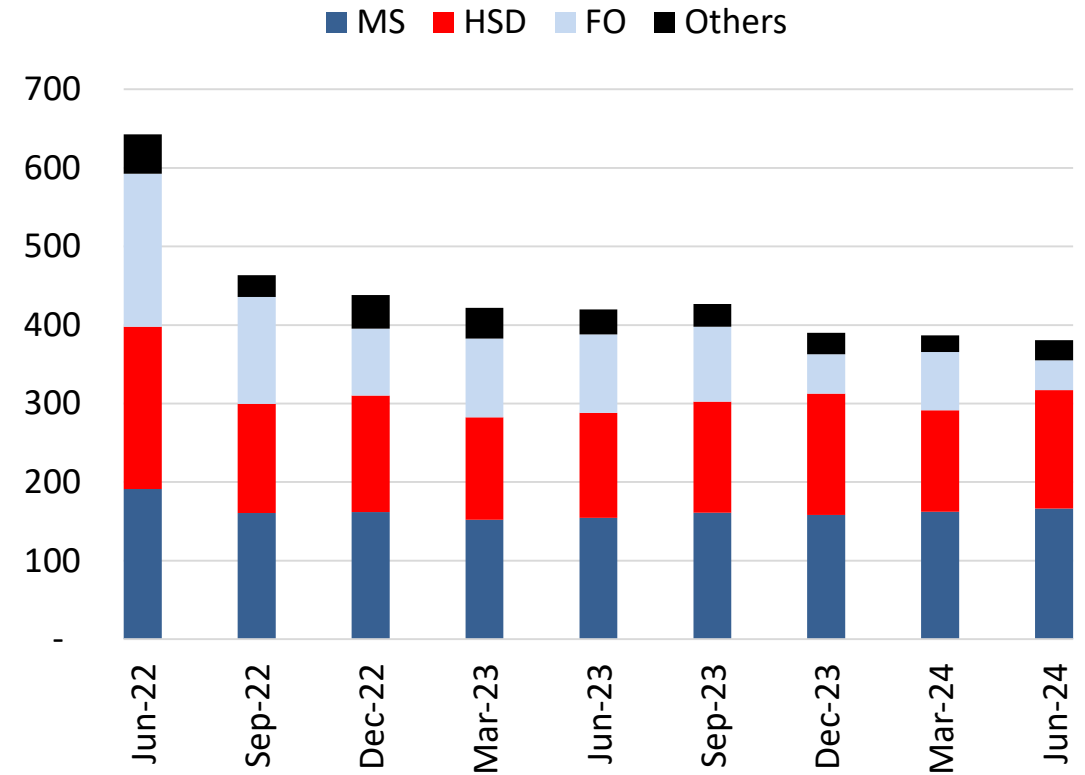
Source: Company Accounts, Optimus Research

Chart 1: PSO volumetric sales in KT



Source: Zakheera, Optimus Research

Chart 2: APL volumetric sales in KT



Source: Zakheera, Optimus Research

Analyst Certification

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