

Pakistan OMCs

2QFY24 Previews: Inventory losses to drag profitability down

We preview Oil Marketing Companies 2QFY24 results where we expect revenue of our universe (PSO & APL) to increase by 12% YoY. However, we expect profitability to slide into negative zone due to massive inventory losses. Volumetric sales of industry declined by 15% YoY to clocked in at ~3.9mn tons in 2QFY24, mainly attributable to i) Higher petroleum product prices, ii) Slowdown in economic activity, iii) Lower FO demand for power generation. As per OCAC's data, PSO & APL closed the quarter with market shares of 50.1% & 9.6%, respectively.

We expect OMCs to post inventory losses in 2QFY24 as ex-refinery prices of MS and HSD decreased by 25% and 26% to PKR188/ltr and PKR198/ltr on quarter end basis, respectively. To highlight, retail prices of MS and HSD were at record high of PKR331/ltr and PKR329/ltr, respectively, in second fortnightly of Sep'23. However, increase in OMC margins for MS & HSD by ~26% QoQ on avg basis will partially offset the impact of massive inventory losses. We expect PSO to post LPS of PKR23.5 while APL to post EPS of PKR8.9 in 2QFY24. Along with the result, we expect APL to announce DPS of ~PKR20.

PSO PA: 2QFY24 LPS expected to clock in at PKR23.5

PSO is expected to post an unconsolidated LAT of ~PKR11.0bn (LPS: PKR23.5) vs. LAT of PKR4.6bn (LPS: PKR9.7). Revenue is expected to increase by 11% YoY due to higher petroleum product prices. On volumetric front, company posted a decline of 15% YoY to clock in at ~1.9mn tons, while on sequential basis, volumetric sales increased by 1%. Similarly, retail volumetric sales for the company stood at ~1.7mn tons (↓12%/↑3% YoY/QoQ). We expect company to post inventory loss of ~PKR18.7bn during the period. Finance cost is expected to clock in at PKR9.8bn, up by 28% YoY due to higher borrowing and elevated interest rates. To highlight, company's receivables have escalated to PKR510bn (↑3% QoQ) in Sep'23.

APL PA: 2QFY24 EPS expected to clock in at PKR8.9

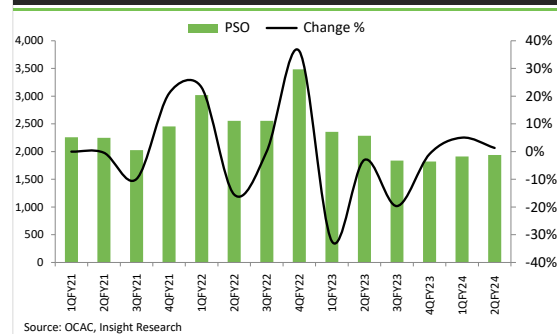
We expect APL to post PAT of ~PKR1.1bn (EPS: PKR8.9), down by 11%/79% YoY/QoQ mainly due inventory losses. We expect inventory losses to clock in at ~PKR2.2bn in 2QFY24. Topline of the company is expected to increase by 19% YoY mainly led by elevated petroleum product prices. Company posted overall volumetric sales of 374k MT (↓5%/↓8% YoY/QoQ) with retail sales standing at 314k MT (↑2% YoY/QoQ) during the period. Finance income of the company is expected to increase by 56% YoY to clock in at PKR2.2bn due to higher cash & short term investment coupled with elevated interest rates. To highlight, company holds cash & short term investments of PKR35bn (PKR277/sh), as per Sep'23 accounts. Moreover, we expect company to announce cash dividend of ~PKR20.0/sh.

ISL OMC universe earning estimates

PKR/sh	2QFY24E	2QFY23	1QFY24	YoY	QoQ	DPS
PSO	(23.5)	(9.7)	46.6	NM	NM	-
APL	8.9	10.0	42.3	-11%	-79%	20.0

Source: Company Accounts, Insight Research

PSO Quarterly Volumes (000' MT)

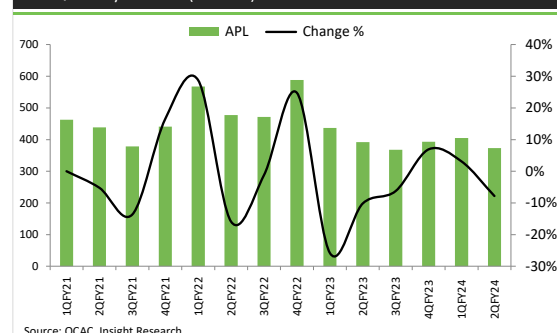


PSO Quarterly Summary

Financial (PKRmn)	2QFY24	2QFY23	1QFY24	YoY	QoQ
Net sales	934,965	843,000	920,081	11%	2%
Gross profit	6,901	4,842	58,450	43%	-88%
Other Income	2,480	3,158	3,348	-21%	-26%
Dist. & Mkt Expenses	4,628	2,956	4,021	57%	15%
Finance cost	9,844	7,665	10,282	28%	-4%
Profit after tax	(11,014)	(4,558)	21,889	NM	NM
EPS	(23.5)	(9.7)	46.6		

Source: Company accounts, Insight research

APL Quarterly Volumes (000' MT)



APL Quarterly Summary

Financials (PKRmn)	2QFY24	2QFY23	1QFY24	YoY	QoQ
Net sales	135,033	113,846	136,439	19%	-1%
Gross profit	1,307	1,954	10,274	-33%	-87%
Operating Expenses	1,531	1,441	2,705	6%	-43%
Finance cost	560	570	374	-2%	50%
Finance Income	2,176	1,397	2,043	56%	7%
Profit after tax	1,108	1,249	5,260	-11%	-79%
EPS	8.9	10.0	42.3		

Source: Company accounts, Insight research

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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