RATING REPORT

Pakistan State Oil Company Limited (PSO)

REPORT DATE:
Dec 08, 2020

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@vis.com.pk

Asfia Aziz
asfia.aziz@vis.com.pk

RATING DETAILS

Rating Category	Current Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Rating Watch-Developing	
Rating Date	*Dec 08,'20*		*May 04,'20*	

COMPANY INFORMATION

Incorporated in 1976	External auditors (FY20): **A.F. Ferguson & Co. Chartered Accountants and EY Ford Rhodes Chartered Accountants**
Listed Public Limited Company	**Chairman of the Board:** Zafar Ul Islam Usmani
Key Shareholders (with stake 5% or more): **Government of Pakistan – 51%**	**Managing Director & Chief Executive Officer:** Syed Muhammad Taha

APPLICABLE METHODOLOGY(IES)

Oil & Gas Industry (June 2019) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-OilGas201906.pdf
Industrial Corporates (April 2019) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Pakistan State Oil Company Limited (PSO)

RATING RATIONALE

Pakistan State Oil Company Limited (PSO) is the country's largest oil marketing company (OMC) in terms of petroleum, oil and lubricant (POL) sales market share (~47.1% in 4MFY21); it also has the largest liquid fuel storage (Over 5o% of the country's total working storage capacity) and most extensive retail network. The company's distribution and storage facilities showcase extensive geographic diversification and presence across the country supporting its competitive profile.

The company is engaged in storage, distribution and marketing of POL products. While being among the country's largest corporate entities, PSO offers its products through a vast network of retail outlets across the country, including sizeable number of 'New Vision Retail' outlets. Government of Pakistan (GoP) holds ~51% stake and management control in PSO through direct and indirect holdings. GoP has complete authority in terms of appointment of the Board of Management and Managing Director. PSO holds strategic investments in Asia Petroleum Limited (49%), Pak Grease Manufacturing Company Limited (22%), Pakistan Refinery Limited (PRL) (ownership increased to 60%), and Pak - Arab Pipeline Company Limited (PAPCO) (12%). Accordingly, the company's vertically integrated supply chain infrastructure supports business and market risk profile.

POL products are segregated into the following three categories

a) White oils – comprising high speed diesel (HSD), motor gasoline (MS), jet petroleum (JP-1), and kerosene oil (SKO),
b) Black oils – comprising furnace oil (FO), and light speed diesel (LDO), and
c) Lubricants and chemicals.

Barring lubricants, PSO possesses market dominance in other segments. Furthermore, the company is also engaged in supply of gaseous fuels including liquefied natural gas (LNG), liquefied petroleum gas (LPG) and franchising of compressed natural gas (CNG). The company is also establishing presence in the non-fuel retail segment with a wide network of convenience stores and other associated services. Going forward, PSO plans to continue to undergo an extensive overhaul of its existing storage and marketing infrastructure including replacement of select FO storages. Moreover, addition of new storages will also continue at strategic locations. In line with strategic objectives, PSO continues to diversify its businesses further in the mid-stream oil industry. PSO presently maintains integration into refining business through stakes in PRL which were enhanced to 60% from 52.7% previously. Improving customers' experience and loyalty also remain key focus areas.

Key Rating Drivers

Sovereign ownership and strategic national importance in the domestic energy sector.

The assigned ratings reflect sovereign ownership structure of the company with GoP being the largest shareholder, having a controlling stake. Ratings also incorporate PSO's strategic national importance in the domestic energy sector given its sizeable oil storage capacity (around half of country's total storage) and extensive footprint across the country. Thus, unhindered supply of petroleum products in the domestic market and to strategic customers is contingent on smooth operations of PSO. VIS believes PSO will continue to be of strategic importance to the country and GoP over the rating horizon.

OVERVIEW OF THE INSTITUTION

Pakistan State Oil Company Limited (PSO) is a public company incorporated in Pakistan in 1976 and is listed on the Pakistan Stock Exchange Limited. Registered office of the company is located at in Karachi. Principal activities of the company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

Profile of Chairman

Zafar Ul Islam Usmani has held multiple C-level positions with multinational and national companies. He has worked as Chief Operating Officer in Cable & Wireless JV, Paktel; Chief Executive Officer in ExxonMobil JV in Pakistan; Senior Vice President Commercial in Pakistan International Airlines Corporation; Senior Executive Vice President in Pakistan Telecommunication Company Limited and Chief Operating Officer in CM Pak Ltd (Zong). He has overall 34 years of experience with 17 years in C-level positions, with exposure in the area of management, strategy, planning, marketing, sales, distribution, customer services and finance.

Profile of Managing Director & CEO

Syed Muhammad Taha has been appointed as the CEO and MD in February 2020 replacing Mr. Jehangir Ali Shah. Syed Taha possesses 19 years of executive-level management experience. Previously, he worked as an executive director at Oasis Energy whereby he headed the Program Management Office of Port Harcourt Electricity Distribution Company, Nigeria. Prior to Oasis Energy, he worked at K-Electric Limited as Chief Operating Officer (Distribution) and a member of the Senior Leadership Team. Mr. Taha has also worked for over 9 years at PSO, where he held several senior positions including Head of Corporate Affairs, Retail Fuel, Cards Business and Corporate Planning and worked directly under CEOs. Other corporates where he worked include Shell Pakistan, Caltex Pakistan (A Chevron Company) and Pakistan Steel Mills. Mr. Taha holds an Engineering degree, with an MBA in Finance from the Institute of Business Administration Karachi.

Financial performance expected to remain strong over the rating horizon

Despite the impact of corona virus pandemic, industry sales recorded double digit growth during 5MFY21. PSO's overall volumetric growth performance has remained in line with industry trend but was significantly higher than other large industry players. Given projected recovery in economic growth in the ongoing fiscal year along with stabilization in exchange rate and increasing international oil prices, financial performance of the Company is expected to remain robust in FY21. Financial performance will also be facilitated by significant decline in borrowing levels and lower average interest rates resulting in sharply lower finance cost as compared to the preceding year. Key risk to performance in FY21 will be from a prolonged 2nd wave of the corona virus pandemic although risk of the same is considered manageable given that vaccine roll out is expected in the upcoming months.

Pakistan State Oil Company Limited (PSO) Appendix I

FINANCIAL SUMMARY- Unconsolidated (Rs. in m)						
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**1QFY21**
Fixed Assets	6,607	6,945	7,327	8,187	9,994	10,569
Long term Investments	50,133	4,388	4,784	11,440	16,191	17,039
Stock-in-Trade	50,834	66,333	81,615	89,665	57,215	74,291
Trade Debts	178,271	212,619	245,577	219,586	196,760	195,695
Cash & Bank Balances	5,736	4,131	4,637	4,593	3,909	3,076
Total Assets	342,316	392,443	402,562	417,080	341,718	351,871
Trade and Other Payables	136,713	146,270	192,146	180,043	147,460	177,490
Long Term Debt	-	-	-	-	4,352	4,397
Short Term Debt	105,113	130,499	89,847	106,977	66,433	42,196
Total Debt	105,113	130,499	89,847	106,977	70,785	46,593
Paid Up Capital	2,717	2,717	3,260	3,912	4,695	4,695
Total Equity	91,581	102,850	110,452	119,181	113,061	118,575
INCOME STATEMENT	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**1QFY21**
Net Sales	677,940	878,147	1,056,901	1,154,298	1,108,358	280,765
Gross Profit	22,525	37,136	39,636	36,017	12,227	11,496
Profit Before Tax	16,289	29,347	27,160	17,477	(5,134)	7,676
Profit After Tax	10,273	18,226	15,461	10,587	(6,466)	5,144
RATIO ANALYSIS	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**1QFY21**
Gross Margin (%)	3.3%	4.2%	3.8%	3.1%	1.1%	4.1%
Net Margin (%)	1.5%	2.1%	1.5%	0.9%	-0.6%	1.8%
Net Working Capital	29,673	87,056	91,159	93,854	75,911	79,764
FFO	6,991	12,353	12,544	8,988	(8,784)	5,868
FFO to Total Debt (%)	7%	9%	14%	8%	-12%	50%
FFO to Long Term Debt (%)	NA	NA	NA	NA	-202%	533.8%
Debt Servicing Coverage Ratio (x)	2.29	3.39	3.43	2.07	0.24	41.36
Gearing (x)	1.15	1.27	0.81	0.90	0.63	0.39
Leverage (x)	2.74	2.82	2.64	2.50	2.02	1.97
Current Ratio (x)	1.12	1.31	1.32	1.32	1.35	1.36
STD Coverage	218%	214%	364%	289%	382%	640%
ROAA (%)	3%	5%	4%	3%	-2%	6%
ROAE (%)	12%	19%	14%	9%	-6%	18%

**Ratios Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

S

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

<table>
<tr><th colspan="5">REGULATORY DISCLOSURES</th><th>Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Pakistan State Oil Company Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Oil & Gas</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="5">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5"><u>RATING TYPE: ENTITY</u></td></tr>
<tr><td>Dec-08-20</td><td>AA+</td><td>A-1+</td><td>Stable</td><td>Maintained</td></tr>
<tr><td>May-04-20</td><td>AA+</td><td>A-1+</td><td>Rating Watch-Developing</td><td>Maintained</td></tr>
<tr><td>Jun-19-19</td><td>AA+</td><td>A-1+</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</td></tr>
<tr><td>Disclaimer</td><td colspan="5">Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
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<tr><td rowspan="2">Due Diligence Meetings Conducted</td><td colspan="2">Name</td><td colspan="2">Designation</td><td>Date</td></tr>
<tr><td colspan="2">N/a</td><td colspan="2">N/a</td><td>N/a</td></tr>
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