RATING REPORT

Pakistan State Oil Company Limited (PSO)

REPORT DATE:
December 13, 2022

RATING ANALYSTS:

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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		Stable	
Rating Date	*Dec 13, '22*		*Dec 03, '21*	

COMPANY INFORMATION	
Incorporated in 1976	External auditors: **KPMG Taseer Hadi & Co.**
Listed Public Limited Company	**Chairman of the Board:** Zafar Ul Islam Usmani
Key Shareholders (with stake 5% or more): Government of Pakistan (direct and indirect) – **51%**	**Managing Director & Chief Executive Officer:** Syed Muhammad Taha

APPLICABLE METHODOLOGY(IES)

Oil & Gas Industry (June 2019) https://docs.vis.com.pk/docs/Meth-OilGas201906.pdf
Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Pakistan State Oil Company Limited (PSO)

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 over 3 decades 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 possesses 30 years of cross-industry experience, both local and international. Previously, he worked as an executive director at Oasis

RATING RATIONALE

Pakistan State Oil Company Limited ('PSO' or 'the Company') is the country's largest oil marketing company (OMC). In terms of HSD, MOGAS and FO sales market share increased to ~50.02% in FY22 as compared to ~45.4% in FY21; PSO also possesses the 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 (more than 3,500), 9 installations, 23 depots, refueling facilities at 10 airports, 2 state-of-the-art lubricant manufacturing facilities and LPG storage & bottling facilities across the country. During the year, the Company added 112.5 thousand tons in storage capacity, 70 retail outlets, 21 convenience stores and 3 electric vehicle charging stations. The Government of Pakistan (GoP) holds ~50% 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) (63.56%), 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 has also established presence in the non-fuel retail segment with a wide network of convenience stores and other associated services. To enhance accessibility, the company is continuously revamping its Shop Stops, adding quick service restaurants and ATMs along with adding new vision retail outlets nationwide. Going forward in the medium to long term, PSO plans to continue to undergo an extensive overhaul of its existing storage and marketing infrastructure. 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 stake in PRL. Improving customers' experience and loyalty continues to 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)

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 Distribution Officer and a member of the Senior Leadership Team. Mr. Taha has worked for almost a decade at PSO as well, where he held several senior positions and led various functions as Head of Corporate Affairs, Retail Fuels, Cards Business and Corporate Planning. 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.

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.

Growth momentum in industry volumes continued during FY22 due to spurring economic activities; however, 1QFY23 volumes registered a notable dip

Industry sales volume increased by in FY22 primarily on account of spurring economic activities led to growth in consumption and increased vehicle sales. Pakistan continued to be a net importer of crude oil and petroleum products from Kuwait, Qatar, UAE and Saudi Arabia. A hike in FO volumes was noted (a growth of 32% in FY22) in the outgoing year due to higher electricity demand, shortage of natural gas for power generation and expensive prices for RLNG. Volumes for HSD and MOGAS depicted an increase of 14% and 8% respectively in FY22 (cumulatively industry volumes up by 14% Y/Y). During 1Q23, petroleum sales declined by 22% Y/Y including FO, HSD and MOGAS plummeted by 16%, 31% and 21%, respectively. Going forward, the overall demand of petroleum products is expected to remain under stress during FY23 with an expected double digit decline in volume. Other factors that may impact industry performance over the medium term includes enhanced technological advancements towards introduction of electric vehicles impacting fuel consumption, and higher utilization of indigenous coal from the Thar region replacing LNG off-takes.

Industry Sales (MT)			
	FY20	**FY21**	**FY22**
Furnace Oil (FO)	2,368,100	3,239,200	4,261,900
High Speed Diesel (HSD)	6,633,200	7,794,900	8,919,100
Motor Spirit (MS)	7,509,700	8,513,100	9,158,200
Total	**16,511,000**	**19,547,200**	**22,339,200**

Consistent market leadership in liquid fuels with further growth in market share noted in ongoing year. Recognized brand name in the oil marketing business with diversified product portfolio continued to be rating drivers

PSO is the largest OMC in Pakistan with 50.02% market share in PMG, HSD and FO during FY22 (FY21: 45.4%) with an established brand name in the business. Improvement in market presence across all segments during the outgoing year was achieved through enhancement of consumer experience and forecourt improvements. Strategic initiatives over the medium term include undertaking significant investment in storage, marketing and refining infrastructure in order to retain market share given the increasingly competitive landscape.

Industry (PMG, HSD and FO)	**FY20**		**FY21**		**FY22**	
(in Metric Tons)	**Volumes**	**Share (%)**	**Volumes**	**Share (%)**	**Volumes**	**Share (%)**
PSO	7,036,200	42.60%	8,874,600	45.40%	11,173,400	50.02%
Others	9,474,800	57.40%	10,672,600	54.6%	11,165,800	49.98%
Industry Volumes	**16,511,000**	**100%**	**19,547,200**	**100%**	**22,339,200**	**100%**

Largest storage and marketing infrastructure in the country; storage conversion, rehabilitation and new development project along with retail outlet enhancement to strengthen infrastructure over the next two years

PSO operates under the largest storage and marketing infrastructure in the country. The Company is continuously enhancing its storage infrastructure over the last two years. In addition to increase in storage capacities, rehabilitation of storage capacities has also been done. The Company's total storage capacity is now at 1.1 million tons wherein 66% located in South, followed by 24% in Central and remaining in North. Also, at present the development of 90 thousand tons of storage is under process.

Under the distribution network, approximately 10,600 lorries are engaged with PSO which are operated and registered under ~470 Cartage Contractors who are in direct agreement with the Company. As of June 30, 2022, around 3,304 tank lorries are state of the art OGRA & NHA Compliant tank lorries.

PSO witnessed an all-time high topline in FY22 both due to increase in prices and volumes. Overall profitability was also supported by notable decrease in finance cost and inventory gains. Going forward, quantum of inventory gain/loss will play an important role on profitability levels

Net sales have increased at a compound annual growth rate (CAGR) (FY19-22) of 28.5%. Change in business mix was noted in the outgoing year with increased observed proportion of FO sales in total sales mix of the Company at 14% (FY21: 9%) with the proportion of HSD and PMG declined to 29% and 29% (FY21: 33% and 35%). This has been on account of greater power demand. Overall growth in topline was a function of both increase in average selling prices and volumes. In FY22, gross margins were elevated due to increase in OMC margins by GoP. Going forward, gross margins are expected to vary in accordance with sales volume, inventory gains/losses and selling prices, CPI linkage of margins on retail fuels is expected to support margins.

Overall profitability profile was further supported by higher markup income on delayed payments (primarily from the power sector) to the tune of Rs. 17.5b (FY20: Rs. 12.6b), and lower finance costs to the tune of Rs. 4.7b (FY20: Rs. 10.2b). Consequently, the Company reported profit after tax of Rs. 86.2b in FY22 (FY21: Rs. 29.1).

Profitability profile has weakened during 1QFY23 despite increase of 88% Y/Y in topline. Gross margins has declined mainly due to higher inventory losses. However, other income has increased to Rs. 6.4b (1Q22: Rs. 1.8b) while finance cost has increased notably to Rs. 4.8b (1Q22: 0.6b). PSO posted a net profit of Rs. 1.1b (1Q22: 12.0b).

Liquidity profile is considered adequate in view of sufficient cash flow from operations and sizeable cash based sales. With circular debt continuing to be a liquidity constraint, an increasing quantum of trade debts has also been noted due to rise in LNG receivables

Liquidity profile of the Company draws support from adequate cash flow from operations and sizeable proportion of retail sales in overall revenues. At end-June 2022, overall receivables has increased significantly to Rs. 431b as at Jun'22 (Jun'21: 220b) mainly in the wake of higher circular debt during the period. Out of the Rs. 431b, Rs. 373b is outstanding against GENCO, HUBCO and SNGPL on account of inter corporate circular debt. Overall trade debts further increased to Rs. 458b as at Sep'22. Management is mainly concerned on the mounting dues of SNGPL for which the Company is actively engaged with the ministries to devise strategies for recovery of these rising receivables. The liquidity gap is bridged through reliance on short-term borrowing from banks. The persistence of circular debt and the associated liquidity constraints remain an area of concern with respect to working capital management.

Capitalization indicators depict increase

Total equity has grown on timeline basis (Sep'22- Rs. 216.9b; FY22: Rs. 215.6b; FY21: Rs. 139.9b) on account of internal capital generation. Total debt comprising of majorly short-term borrowings amounted to Rs. 247.9b (FY22: Rs. 155.8; FY21: Rs. 56.0b) at end Sep'22. During the rating horizon, the Company is not planning to do any CAPEX other than the routine CAPEX which is planned to be funded by internal cash generation. Gearing and leverage ratios were reported at 1.17x (FY22: 0.75x, FY21: 0.44x) and 3.10x (FY22: 3.17, FY21: 1.71x) respectively at end-Sep'22.

Pakistan State Oil Company Limited (PSO) Appendix I

FINANCIAL SUMMARY- Unconsolidated (Rs. in m)						
BALANCE SHEET	**Jun'18**	**Jun'19**	**Jun'20**	**Jun'21**	**Jun'22**	**Sep'22**
Fixed Assets	7,327	8,187	9,994	14,157	15,689	15,866
Long term Investments	4,784	11,440	4,736	5,216	6,474	6,374
Stock-in-Trade	81,615	89,665	57,215	79,029	341,758	316,341
Trade Debts	245,577	219,586	197,117	220,196	430,942	458,463
Cash & Bank Balances	4,637	4,593	3,909	2,902	13,919	7,271
Total Assets	402,562	417,080	342,872	379,260	899,454	888,905
Trade and Other Payables	192,146	180,043	147,817	167,694	493,810	387,403
Long Term Debt	-	-	4,352	5,062	6,637	6,609
Short Term Debt	89,847	106,977	66,433	56,043	155,846	247,939
Total Debt	89,847	106,977	70,785	61,105	162,483	254,548
Paid Up Capital	3,260	3,912	4,695	4,695	4,695	4,695
Total Equity	110,452	119,181	113,061	139,978	215,649	216,921
INCOME STATEMENT	**Jun'18**	**Jun'19**	**FY20**	**FY21**	**FY22**	**1Q23**
Net Sales	1,063,744	1,154,298	1,108,358	1,204,247	2,451,581	862,264
Gross Profit	39,636	36,017	12,227	54,609	160,995	6,720
Profit Before Tax	27,160	17,477	(5,134)	44,056	147,855	4,008
Profit After Tax	15,461	10,587	(6,465)	29,139	86,223	1,198
RATIO ANALYSIS	**Jun'18**	**Jun'19**	**FY20**	**FY21**	**FY22**	**1Q23**
Gross Margin (%)	3.7%	3.1%	1.1%	4.5%	6.6%	0.8%
Net Margin (%)	1.5%	0.9%	-0.6%	2.4%	3.5%	0.1%
Net Working Capital	91,159	93,854	75,911	100,920	178,573	176,757
FFO	12,544	8,988	(8,784)	43,838	110,363	(1,399)
FFO to Total Debt (%)	14.0%	8.4%	-12.4%	71.7%	67.9%	-0.5%
FFO to Long Term Debt (%)	NA	NA	-202%	866%	1663%	-21%
Debt Servicing Coverage Ratio (x)*	3.43	2.07	0.24	10.87	28.98	0.22
Gearing (x)	0.81	0.90	0.63	0.44	0.75	1.17
Leverage (x)	2.64	2.50	2.03	1.71	3.17	3.10
Current Ratio (x)	1.32	1.32	1.35	1.44	1.27	1.27
STD Coverage	364.2%	289.1%	382.8%	533.9%	495.8%	312.5%
ROAA (%)*	3.9%	2.6%	-1.7%	8.1%	13.5%	0.5%
ROAE (%)*	14.5%	9.2%	-5.6%	23.0%	48.5%	2.2%

**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.

(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.

REGULATORY DISCLOSURES	**Appendix III**
Name of Rated Entity	Pakistan State Oil Company Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Dec-13-22	AA+	A-1+	Stable	Reaffirmed
Dec-03- 21	AA+	A-1+	Stable	Reaffirmed
Dec-08-20	AA+	A-1+	Stable	Maintained
May-04-20	AA+	A-1+	Rating Watch-Developing	Maintained
Jun-19-19	AA+	A-1+	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Zubair Ahmed Qureshi	Deputy GM Financial Reporting & Taxation	18- Nov- 2022
2	Mr. Wajeeh Ahmed	Acting GM Corporate Planning	18- Nov- 2022
3	Mr. Zeeshan Haider	GM Finance	18- Nov- 2022
4	Mr. Tariq Hussain	Acting GM Compliance & Reporting	18- Nov- 2022