RATING REPORT

Pakistan State Oil Company Limited (PSO)

REPORT DATE:
January 19, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Date	*January 19, 2024*		*Dec 13, 2022*	
Rating Outlook	Reaffirmed		Reaffirmed	
Rating Action	*Stable*		*Stable*	

COMPANY INFORMATION	
Incorporated in 1976	External auditors: **KPMG Taseer Hadi & Co.**
Listed Public Limited Company	**Chairman of the Board:** Asif Baigmohamed
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)

VIS Entity Rating Criteria Methodology – Industrial Corporates & Government Supported Entities
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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 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

Mr. Asif Baigmohamed became the Chairman of PSO in May 2023. He is the Group Chief Executive Officer of Baigmohamed Group of Companies and CEO of ABM Investment, a private equity firm. He previously served as the CEO of Coco-Cola Southern Pakistan and a Director in Pakistan Petroleum Limited and Pakistan LNG Limited. Mr.Baigmohamed is a graduate of Brown University with honours in Economic and minor in Applied Mathematics. His academic excellence was recognized by the Omicron Delta Epsilon in the field of economics.

Profile of Managing Director & CEO

Syed Muhammad Taha possesses 3 decades of cross industry 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 Distribution Officer and a member of the Senior Leadership Team. Mr. Taha has also worked for almost a decade at PSO, where he held several senior positions including Head of Corporate

RATING RATIONALE

Pakistan State Oil Company Limited ('PSO' or 'the Company') is the country's largest oil marketing company (OMC). The Company is actively involved in the storage, distribution, and marketing of petroleum, oil, and lubricant (POL) products. As one of the largest corporate entities in Pakistan, PSO extends its product offerings through an extensive network, including more than 3,528 retail outlets, 9 installations, 19 depots, 14 airport refueling facilities and operations at 2 seaports. During the past year, the Company expanded its storage capacity to 1.14 million tons, being the largest in the country and added 49 new retail outlets, , and established 2 electric vehicle charging stations. Additionally, the company's lubricant manufacturing plants have a combined blending capacity of 70 thousand tons per year. PSO has also established 13 LPG storage and bottling facilities across Pakistan to effectively serve its customers. The company also has over 200 convenience stores spanning throughout Pakistan. Moreover, as the largest importer of liquefied natural gas (LNG), PSO brings in approximately 6 million tons of LNG annually through Government-to-Government (G2G) contracts with Qatargas. The Company's distribution and storage facilities showcase extensive geographic diversification and presence across the country supporting its competitive profile.

The Government of Pakistan (GoP) holds a significant ~51% stake in PSO and exercises management control through direct and indirect ownership. GoP has full authority over the appointment of the Board of Management and the Managing Director. Additionally, PSO maintains strategic investments in various entities, including Asia Petroleum Limited (49%), Pak Grease Manufacturing Company Limited (22%), Pakistan Refinery Limited (PRL) (63.56%), and Pak-Arab Pipeline Company Limited (PAPCO) (12%). PSO also owns subsidiaries like Cerisma (Private) Limited, PSO Renewable Energy (Private) Limited and PSO Venture Capital (Private) Limited. Consequently, PSO's vertically integrated supply chain infrastructure plays a pivotal role in supporting its 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 diesel oil (LDO), and
c) Lubricants and chemicals.

Barring lubricants, PSO possesses market dominance in other segments. PSO managed to increase its market share across major portfolios resulting in an overall market share of 50.4% while maintaining its dominance in the white oil market with a 51% share along with 98% share in jet fuel. Additionally, the company is actively involved in the supply of gaseous fuels, which includes liquefied natural gas (LNG), liquefied petroleum gas (LPG), and the franchise operation of compressed natural gas (CNG). The company has also extended its presence into the non-fuel retail sector by establishing a broad network of convenience stores and related services. In order to enhance accessibility, the company is consistently upgrading its Shop Stops, introducing quick-service restaurants, ATMs, and expanding its new vision retail outlets across the country. Looking ahead in the medium to long term, PSO has plans to continue its extensive modernization of existing storage and marketing infrastructure. Furthermore, the addition of new storage facilities will be ongoing, strategically located for optimal efficiency. In alignment with its strategic objectives, PSO is actively diversifying its involvement in the mid-stream oil industry. Currently, PSO maintains integration into the refining business through its stake in PRL. Improving the customer experience and fostering loyalty remain central areas of focus for the Company.

Affairs, Retail Fuels, Cards Business and Corporate Planning and worked directly under CEOs. Other corporates where he worked include Shell Pakistan, Caltex Pakistan (A Chevron Company) and has experience in the steel industry. Mr. Taha holds an Engineering degree, with an MBA in Finance from the Institute of Business Administration Karachi.

Key Rating Drivers

Ratings take into account the ownership by the government and the significant national importance of the company in the domestic energy sector

Assigned ratings reflect the company's ownership structure, with the Government of Pakistan (GoP) holding the largest share and exerting control. These ratings also take into account PSO's significant role in the national energy sector due to its substantial oil storage capacity, which accounts for approximately half of the country's total storage, as well as its extensive presence throughout the nation. Consequently, the uninterrupted provision of petroleum products in the domestic market and to key customers depends on the efficient functioning of PSO. VIS anticipates that PSO will maintain its strategic significance for the country and the Government of Pakistan throughout the rating horizon.

Notable dip registered in volumes in FY23

PSO revenue growth in FY23 was resisted at 38% year over year. However, this upsurge in revenue during FY23 was solely attributable to higher selling prices of petroleum products, as the sales volumes for key petroleum products such as motor spirit, diesel, and furnace oil declined by 17%, 25%, and 57% year-on-year, respectively. While oil marketing companies had experienced strong petroleum product sales for most of FY22, FY23 saw the weakest petroleum sales in the past five years due to sluggish industrial activity, reduced local transport fuel consumption, weak auto sales and high product prices. In addition to a sharp appreciation in prices and smuggling of the commodity from Iran, factories also reduced their operations as a scarcity of foreign exchange reduced their ability to import raw materials.

Consumption of petroleum products fell to 16.2 million mt in FY2023 from 22.36 million mt in the previous year.

Industry Sales (MT)				
	FY20	FY21	FY22	FY23
Furnace Oil (FO)	2,368,100	3,239,200	4,261,900	2,319,538
High Speed Diesel (HSD)	6,633,200	7,794,900	8,919,100	6,366,118
Motor Spirit (MS)	7,509,700	8,513,100	9,158,200	7,563,674
Total	**16,511,000**	**19,547,200**	**22,339,200**	**16,249,330**

In Q1FY24 industry petroleum sales slumped by 16% year-on-year. PSO's topline grew by 7% 1QFY24 due to higher selling prices of petroleum products as well as a jump in motor gasoline and high-speed diesel volumes by 8% and 9%, year-on-year respectively due to low base impact from last year. Meanwhile, furnace oil volumes continued to decline.

Volatility in international oil prices impacted margins significantly, albeit showing recovery in Q1FY24

International oil price volatility has remained one of the key financial risks of the oil industry. Throughout the year, there was a notable decrease in Brent crude oil prices, dropping from an average of US$ 113 per barrel in July 2022 to US$ 75 per barrel in June 2023, resulting in inventory losses.

This decline in oil prices had a direct impact on the OMC's gross margin in FY23, which decreased to 2.21%. This represented a decline of more than 65% compared to the previous year. Despite the company experiencing lower provisions on impairment of financial assets and reduced other expenses, weaker gross profits led to a decrease in operating margins. Nonetheless, PSO managed to mitigate some of the damage by effectively managing its supply chain and inventory levels, as well as from support of the government, which increased OMC margins for both motor gasoline (MoGas) and diesel. Another factor impacting margins was the significant increase in finance costs in FY23 as well as a shift from profit to a share of loss from associates in FY23 compared to profits in FY22. Consequently, PSO recorded an unconsolidated profit of Rs 5.7b, a substantial decline of 93% compared to Rs 86.2b in FY22. However, In Q1FY24, gross profits recorded a sizeable uptick from less than 1% in Q1 last year to 6.35% in 1QFY24. The rise in gross margins was due to significant inventory gains on the back of substantial and continued hikes in fuel prices. PSO reported an unprecedented quarterly profit of PKR 21.9b against PKR 1bn in same period last year.

Despite lower volumes, PSO has been able to maintain its market leadership position with a strong brand name and diversified portfolio with superior outreach

In Pakistan's highly competitive downstream sector, with more than 38 players vying for market dominance, PSO maintained its market leadership position with an overall market share of 50.4% (FY22: 50.02%). PSO is the largest OMC in Pakistan with an established brand name in the business. PSO has demonstrated improved performance in various market segments, strengthening its position in the white oil market with a 51%(FY22: 49.2%) market share, maintaining a robust presence in motor gasoline at 44.2%, defying declining diesel consumption with a 54.4% (FY22: 51.6%) market share, and maintaining its top position with 98% market share in jet fuel across 14 airports in Pakistan. Furthermore, the company increased its market share in lubricants to 25.2% (FY22: 23.8%) and achieved record LPG sales, growing by 9% to reach 40.3 thousand tons in FY23.

Industry (PMG, HSD and FO)	**FY21**		**FY22**		**FY23**	
(in Metric Tons)	**Volumes**	**Share (%)**	**Volumes**	**Share (%)**	**Volumes**	**Share (%)**
PSO	8,874,600	45.40%	11,173,400	50.02%	8,189,662	50.4%
Others	10,672,600	54.6%	11,165,800	49.98%	8,059,668	49.6%
Industry Volumes	**19,547,200**	**100%**	**22,339,200**	**100%**	**16,249,330**	**100%**

PSO distinguishes itself on largest storage and marketing infrastructure in the country

PSO holds the country's largest storage capacity of 1.14 million tons, with continuous rehabilitation and expansion efforts bolstering its storage infrastructure and maintaining an operational availability rate exceeding 90% throughout the year. During the year, the Company rehabilitated 79 thousand tons of existing storage facilities, and is working on construction for an additional 91 thousand tons of storage at terminals in Faisalabad, Faqirabad, and Mehmoodkot. These initiatives will increase PSO's overall storage capacity to 1.23m tons. Furthermore, PSO has established 13 LPG storage and bottling facilities across Pakistan.

The Company also expanded its retail presence, adding 49 new outlets for a total of 3,528, complemented by over 200 convenience stores across the country, ensuring accessibility to its products and services even in remote areas. Construction of 73 new retail outlets and the acquisition, conversion, or rehabilitation of 10 outlets into New Vision Retail Outlets has been planned for the next year. In line with PSO's digital transformation plans, PSO successfully automated 2 additional terminals bringing total to 5, integrated 600 retail outlets to total 1000, and implemented the Automated Queue Management & Scheduling System (AQMS) for tank lorries at 3 new locations making a total of 7.

Liquidity profile draws comfort from sizeable retail sale proportion.

Liquidity profile of the Company draws support from adequate cash flow from operations and sizeable proportion of retail sales in overall revenues. Nevertheless, the Company continues to face challenges posed by the circular debt. Circular debt receivables surged during the year. As of June 30, 2023, the total outstanding receivables amounted to PKR 496 billion, of which PKR 344 billion constituted receivables from SNGPL. Overall trade debts further increased to Rs. 511b as at Sep'23. While management is actively engaged with the ministries to devise strategies for recovery of these rising receivables, comfort is drawn from receivables being Government of Pakistan backed, with very low credit risk. The liquidity gap, in the meantime, is bridged through reliance on short-term borrowing from banks.

Capitalization indicators depict increase

Equity growth was nominal in FY23 to Rs. 216.5b (FY22: Rs. 215.6b) on account of lower profitability, however increasing to Rs. 237.9b at the end of Q1FY24. On a timeline basis equity growth has been based on internal generation. Capitalization indicators have recorded a notable uptick in FY23 as a result of higher short term borrowings for working capital support. During the rating horizon, the Company is not planning to do any major CAPEX other than the routine CAPEX which is planned to be funded by internal cash generation. Gearing and leverage ratios were reported at 1.7x (FY23: 2x; FY22: 0.75x) and 3.5x (FY23: 3.5x: FY22: 3.17x) respectively at end-Sep'23. Improvement in capitalization profile will remain important.

Pakistan State Oil Company Limited (PSO) Appendix I

FINANCIAL SUMMARY (PKR Millions)						
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Property, plant and equipment	8,187	9,994	14,157	15,689	18,641	18,545
Stock-in-trade	89,665	57,215	79,029	341,758	292,626	383,805
Trade debts	219,586	197,117	220,196	430,942	495,898	510,883
Cash & Bank Balances	4,593	3,909	2,902	13,919	28,954	8,664
Total Assets	417,080	342,872	379,260	899,454	983,396	1,081,992
Trade and Other Payables	180,043	147,817	167,694	493,810	308,091	408,508
Current portion of lease liability	0	37	762	794	483	479
Short-term Debt	106,977	66,433	56,043	155,846	422,706	392,137
Total Debt	106,977	70,785	61,105	162,483	429,800	399,462
Total Liabilities	297,899	229,811	239,281	683,805	766,836	844,068
Paid up Capital	3,912	4,695	4,695	4,695	4,695	4,695
Equity (excl. Revaluation Surplus)	119,181	113,061	139,978	215,649	216,560	237,924
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Net Sales	1,154,298	1,108,358	1,204,247	2,451,581	3,391,112	920,081
Gross Profit	36,017	12,227	54,609	160,995	74,847	58,450
Operating Profit	18,904	-2,461	34,890	127,069	52,052	49,356
Finance Costs	8,939	13,427	10,242	4,721	40,335	10,283
Profit Before Tax	17,477	-5,134	44,056	147,855	24,366	42,863
Profit After Tax	10,587	-6,466	29,139	86,223	5,662	21,888
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Gross Margin (%)	3.1%	1.1%	4.5%	6.6%	2.2%	6.4%
Net Margin (%)	0.9%	-0.6%	2.4%	3.5%	0.2%	2.4%
Funds from Operation (FFO)*	8,987.9	-8,783.9	43,837.7	110,363.2	9,142	142,030.0
FFO to Total Debt* (%)	8.4%	-12.4%	71.7%	67.9%	2.1%	35.6%
FFO to Long Term Debt* (%)	0.0%	-201.8%	866.0%	1662.9%	128.9%	1938.9%
Gearing (x)	0.9	0.6	0.4	0.75	2.0	1.68
Leverage (x)	2.5	2.0	1.7	3.2	3.5	3.5
Debt Servicing Coverage Ratio* (x)	2.0	0.3	4.9	20.9	1.3	4.4
Current Ratio	1.3	1.3	1.4	1.3	1.2	1.2
(Stock in trade + trade debts) / STD (x)	2.9	3.8	5.3	5.0	1.9	2.3
Return on Average Assets* (%)	2.6%	-1.7%	8.1%	13.5%	0.6%	8.1%
Return on Average Equity* (%)	9.2%	-5.6%	23.0%	48.5%	2.6%	36.8%

*****_Annualized, if required_

REGULATORY DISCLOSURES	Appendix II
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				
Jan-19-24	AA+	A-1+	Stable	Reaffirmed
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.
Disclaimer	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. 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.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Hanzala M. Ahmed	Manager Taxation & Financial reporting	Dec 15, 2023
2	Ms. Gul Bakht	CA trainee	