

# PSO

## 1QFY23 Result Review: BUY Stance Maintained

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PSO has announced its FY23 result where it posted a profit after tax of Rs1.198bn (EPS: Rs2.55) as compared to a profit after tax of Rs11.99bn (EPS: Rs25.55) in the same period last year, down by 90% YoY majorly because of huge inventory losses.

The company has posted a net sale of Rs862bn against Rs459bn in SPLY, recording a growth of 87.8% YoY. We note that this increase is attributed to the increased prices.

Furthermore, the operating and selling expense has increased to 4.08bn as compared to 3.96bn during SPLY up by 3.2%.

Other income has increased significantly by 261% YoY to 6.45bn compared to 1.79bn during SPLY. Furthermore, effective taxation has increased to 70.1% as compared to 32.6%.

PSO is currently trading at FY23E PE of 5.60x. Furthermore, the scrip is trading at a FY23E P/B of 0.29x which offers a discount of 36% relative to its historical 3-year average of 0.45x. We recommend our investors to **BUY** the scrip with DCF-based Jun-23 TP of Rs.180 which provides an upside potential of 28%. Furthermore, it also offers a dividend yield of 2% which makes a total return of 30%.

Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	862,264	459,224	87.8% ▲	2,451,581	1,204,247	103.6% ▲
Cost of Sales	-855,544	-437,170	95.7% ▲	-2,290,586	-1,149,638	99.2% ▲
<b>Gross Profit</b>	<b>6,720</b>	<b>22,054</b>	<b>69.5% ▼</b>	<b>160,995</b>	<b>54,609</b>	<b>194.8% ▲</b>
SG&A Expenses	-4,081	-3,956	3.2% ▲	-16,812	-14,890	12.9% ▲
<b>Operating Profit</b>	<b>2,122</b>	<b>16,528</b>	<b>87.2% ▼</b>	<b>127,069</b>	<b>34,890</b>	<b>264.2% ▲</b>
Other Income	6,449	1,786	261.1% ▲	24,813	18,826	31.8% ▲
Share of profit of associate	232	113	104.9% ▲	694	581	19.3% ▲
Finance Cost	-4,796	-626	666.4% ▲	-4,721	-10,242	53.9% ▼
Profit Before Taxation	4,008	17,802	77.5% ▼	147,855	44,056	235.6% ▲
Taxation	-2,810	-5,808	51.6% ▼	-61,633	-14,917	313.2% ▲
<b>Profit After Taxation</b>	<b>1,198</b>	<b>11,994</b>	<b>90.0% ▼</b>	<b>86,223</b>	<b>29,139</b>	<b>195.9% ▲</b>
<b>Earnings Per Share</b>	<b>2.55</b>	<b>25.55</b>	<b>90.0% ▼</b>	<b>183.66</b>	<b>62.07</b>	<b>195.9% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>10.00</b>	<b>15.00</b>	<b>33.3% ▼</b>
<b>Bonus</b>	<b>-</b>	<b>-</b>		<b>0%</b>	<b>0%</b>	
Gross Margin	0.8%	4.8%	4.0% ▼	6.6%	4.5%	2.0% ▲
SG&A Expenses to Sales	-0.5%	-0.9%	0.4% ▼	-0.7%	-1.2%	0.6% ▼
Other Income to Sales	0.7%	0.4%	0.4% ▲	1.0%	1.6%	0.6% ▼
Share of profit of associate	0.0%	0.0%	0.0% ▲	0.0%	0.0%	0.0% ▼
Effective Taxation	-70.1%	-32.6%	37.5% ▲	-41.7%	-33.9%	7.8% ▲
Net Margin	0.1%	2.6%	2.5% ▼	3.5%	2.4%	1.1% ▲

Source: ACPL Research, Company Financials

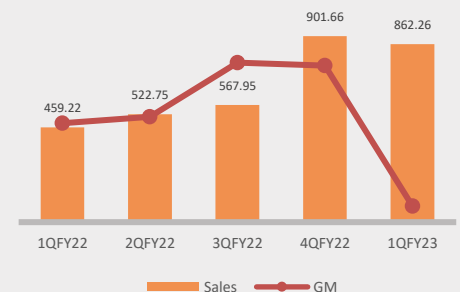
### Key Statistics

Symbol	PSO
TP - Jun 23	180
LDCP	140.26
Upside	28%
Free Float (mn)	211
Market Cap. (Rs.mn)	68,304

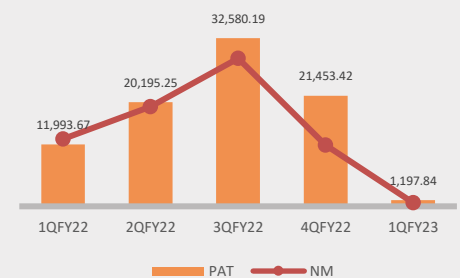
### PSO vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	1,108,358	1,204,247	2,451,581	3,156,423	3,286,301	3,545,447	3,904,767
Cost of sales	-1,096,131	-1,149,638	-2,290,586	-3,126,289	-3,203,357	-3,454,555	-3,792,078
<b>Gross profit</b>	<b>12,227</b>	<b>54,609</b>	<b>160,995</b>	<b>30,134</b>	<b>82,943</b>	<b>90,892</b>	<b>112,689</b>
Distribution cost	-11,490	-11,833	-12,634	-11,047	-11,502	-12,409	-13,667
Administrative expenses	-3,148	-3,057	-4,178	-4,103	-4,272	-4,609	-5,076
Other operating expenses	-51	-4,829	-17,114	-1,263	-1,315	-1,418	-1,562
<b>Profit from operations</b>	<b>-2,461</b>	<b>34,890</b>	<b>127,069</b>	<b>13,721</b>	<b>65,854</b>	<b>72,455</b>	<b>92,384</b>
Other income	10,210	18,826	24,813	25,883	26,948	29,073	32,019
Finance cost	-13,427	-10,242	-4,721	-20,696	-29,128	-25,721	-22,382
<b>Profit before income tax</b>	<b>-5,678</b>	<b>43,474</b>	<b>147,161</b>	<b>18,907</b>	<b>63,674</b>	<b>75,808</b>	<b>102,021</b>
Income tax expense	-1,332	-14,917	-61,633	-7,158	-24,106	-28,699	-38,623
<b>Profit for the year</b>	<b>-7,010</b>	<b>28,558</b>	<b>85,529</b>	<b>11,749</b>	<b>39,568</b>	<b>47,108</b>	<b>63,398</b>
EPS	(14.93)	60.83	182.18	25.03	84.28	100.34	135.04
EBITDA	-848	36,646	129,312	16,046	68,635	75,807	96,464

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-4.0%	8.7%	103.6%	28.8%	4.1%	7.9%	10.1%
Cost of sales	-2.0%	4.9%	99.2%	36.5%	2.5%	7.8%	9.8%
<b>Gross profit</b>	<b>-66.1%</b>	<b>346.6%</b>	<b>194.8%</b>	<b>-81.3%</b>	<b>175.2%</b>	<b>9.6%</b>	<b>24.0%</b>
Distribution cost	15.9%	3.0%	6.8%	-12.6%	4.1%	7.9%	10.1%
Administrative expenses	25.8%	-2.9%	36.7%	-1.8%	4.1%	7.9%	10.1%
Other operating expenses	-98.9%	9399.2%	254.4%	-92.6%	4.1%	7.9%	10.1%
<b>Profit from operations</b>	<b>-113.0%</b>	<b>-1517.6%</b>	<b>264.2%</b>	<b>-89.2%</b>	<b>380.0%</b>	<b>10.0%</b>	<b>27.5%</b>
Other income	39.8%	84.4%	31.8%	4.3%	4.1%	7.9%	10.1%
Finance cost	50.2%	-23.7%	-53.9%	338.4%	40.7%	-11.7%	-13.0%
<b>Profit before income tax</b>	<b>-129.4%</b>	<b>-958.1%</b>	<b>235.6%</b>	<b>-87.2%</b>	<b>236.8%</b>	<b>19.1%</b>	<b>34.6%</b>
Income tax expense	-80.7%	1020.3%	313.2%	-88.4%	236.8%	19.1%	34.6%
<b>Profit for the year</b>	<b>-161.1%</b>	<b>-550.7%</b>	<b>195.9%</b>	<b>-86.4%</b>	<b>236.8%</b>	<b>19.1%</b>	<b>34.6%</b>
EPS	-161.1%	-550.7%	195.9%	-86.4%	236.8%	19.1%	34.6%
EBITDA		<b>-4421.5%</b>	<b>252.9%</b>	<b>-87.6%</b>	<b>327.7%</b>	<b>10.4%</b>	<b>27.2%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	1.10	4.53	6.57	0.95	2.52	2.56	2.89
NP Margin	%	-0.58	2.42	3.52	0.37	1.20	1.33	1.62
OP Margin	%	-0.22	2.90	5.18	0.43	2.00	2.04	2.37
ROE	%	-5.72	20.82	39.98	5.20	15.17	15.59	17.71
ROCE	%	-1.97	22.92	54.72	6.11	28.18	28.94	32.33
ROA	%	-1.89	7.68	9.59	1.09	3.58	4.01	4.95
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.35	1.44	1.27	1.20	1.21	1.21	1.23
Quick	x	1.03	1.07	0.75	0.89	0.89	0.89	0.91
Activity Ratios		FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	14.93	16.88	10.89	10.30	11.93	12.24	12.55
Inventory Days		24.45	21.63	33.53	35.43	30.59	29.83	29.08
Receivables Days		7.83	5.79	8.56	8.56	8.56	8.56	8.56
Payables Days		49.10	53.24	78.69	78.69	78.69	78.69	78.69
Operating Cycle		-16.81	-25.82	-36.60	-34.70	-39.54	-40.30	-41.05
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		0.00	15.00	10.00	3.00	10.00	12.00	16.00
Div. Yield	%	0.00	10.69	7.13	2.14	7.13	8.56	11.41
Dividend Cover	x	0.00	4.14	18.37	8.34	8.43	8.36	8.44
Retention	%	100.00	75.83	94.56	88.00	88.00	88.00	88.00
Payout	%	0.00	24.17	5.44	12.00	12.00	12.00	12.00
No. of Shares	('m)	0.47	0.47	0.47	0.47	0.47	0.47	0.47
EPS		-13.77	62.07	183.66	25.03	84.28	100.34	135.04
BVPS		240.83	298.16	459.34	481.37	555.53	643.84	762.67
P/E	x	-10.18	2.26	0.76	5.60	1.66	1.40	1.04
Sales per share		2361	2565	5222	6723	7000	7552	8317
P/BV	x	0.58	0.47	0.31	0.29	0.25	0.22	0.18
P/S	x	0.06	0.05	0.03	0.02	0.02	0.02	0.02
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	0.59	0.40	0.72	0.79	0.68	0.58	0.49
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	-0.18	3.41	26.92	0.66	2.26	2.82	4.13

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

#### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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