Pakistan OMC

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Pakistan
Oil Marketing Companies

H1FY24: Marred by inventory losses

POL sales volumes remain muted, but some positives persist

We preview 2QFY24 earnings for PSO and APL where we expect our OMC universe to report a loss of PKR7.5bn due to massive inventory losses. Company wise, PSO is expected to report loss of PKR8.2bn (LPS: PKR17.54) in 2QFY24 followed by APL, which expected to report PAT of PKR0.75bn (EPS: PKR6.07). Overall sector POL offtake has marginally increased by 1.4% to 3.9mn MT over the past quarter. One silver lining is that the core earnings of PSO have increased to PKR3.13/sh compared to loss of 0.91/sh posted lasted quarter. Similarly, core earnings of APL have increased to PKR16.84/sh from PKR 10.02/sh last quarter. Improvement in core earnings is due to the fact that average OMC margins have increased by 26% QoQ. Moreover, we expect APL to announce an interim cash dividend of PKR 17 per share.

PSO: PSO is expected to report unconsolidated loss of PKR8.2bn (LPS: PKR17.54) in 2QFY24, against loss of PKR4.55bn (LPS: PKR9.71) in SQLY. Significant decline in earnings is expected, attributable to massive inventory losses amid lower ex-refinery prices. MS ex-refinery price decreased by 26% from Rs 243.09 to Rs 188.13/ltr over the last quarter, Similarly the HSD ex-refinery price decreased by 25% from Rs 252 to Rs 198/ltr. This takes H1FY24 profitability to PKR13.75bn (EPS: PKR29.29).

Against the backdrop of depressed earnings, we expect the company's core earnings to quadruple due to increase in average OMC margins from a loss of PKR0.43 bn (LPS: PKR0.91) to a profit of PKR1.46 bn (EPS: PKR3.13). Net revenue is expected to remain flat due to lower FO offtake by the power sector which was offset by higher jet fuel & HSD offtake. Retail sales volumes clocked at 1.85mn MT (↑ 0.59% QoQ)

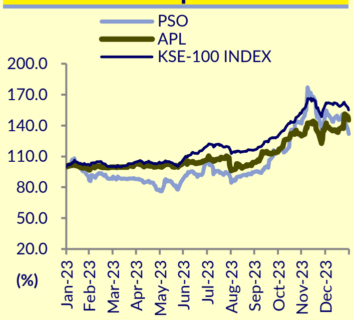
Moreover, LNG sales are expected to decline to 805 mmcfd (↓ 12% QoQ). We expect the company to post an inventory loss of PKR 16.0bn.

APL: APL is likely to report PAT of PKR0.75bn (EPS: PKR6.07) in 2QFY24 as against PKR1.24bn (EPS: PKR10.0) in SQLY, down by 39%. This takes H1FY24 profitability to PKR6.01bn (EPS: PKR48.35), an increase of 9% YoY.

The company's core earnings are estimated to increase by 68% QoQ from PKR1.2 bn (EPS: PKR 10.02) to PKR2.09 bn (EPS: PKR 16.84) in 2QFY24 on the back of margin improvement. Net sales are expected to remain flat QoQ amid lower sales volume particularly in MS & FO segment. In terms of retail sales volumes, POL offtake has slumped by 3% to 0.40mn MT which is likely to be offset by higher average OMC margins. We expect an inventory loss of PKR 2.2bn.

Operating expenses are likely to clock at PKR 1.3bn tempered on the back of exchange rate gains due to rupee appreciation. Finance income is expected around

OMC vs. KSE100 performance



Source: PSX, Bloomberg

Earnings

EPS (PKR/sh)	2QFY24E	1QFY24	2QFY23	QoQ	YoY	H1FY24E	H1FY23	YoY
PSO	(17.54)	46.62	(9.71)	-138%	81%	29.08	(7.16)	-506%
APL	6.07	42.27	10.0	-86%	-39%	48.35	44.51	9%
DPS (PKR/sh)								
PSO	NA	NA	NA	NA	40%	20	13.5	44%
APL	17.24	NA	12.5	N/A	38%	NA	NA	N/A

Source: Company Accounts, Alfalah CLSA Research

PKR 1.8bn due to the company's sizable short-term investments and cash balance. Moreover, we expect the company to announce an interim dividend payment of PKR 17.2/sh.

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