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Pakistan State Oil (PSO PA)

4QFY26 Review: Inventory losses drag profitability

Pakistan State Oil (PSO) posted 4QFY26 NLAT of PKR23.1bn (LPS: PKR49.10), compared to a NPAT of PKR5.6bn (EPS: PKR12.02) in SPLY. The result came in significantly lower than our expectations on account of greater-than-expected inventory losses. This takes FY26 NPAT to PKR15.1bn (EPS: PKR32.10), down 28% YoY. The result was accompanied with a DPS of PKR10, in line with estimates.

Key result highlights for 4QFY26:

- Net Revenue for the quarter was recorded at PKR808.97bn, flat YoY but up 9% QoQ, in line with our estimates. This was essentially driven by higher average fuel prices during the quarter.
- PSO reported gross margins of -4.2%, down from 2.9% in SPLY, driven by a decline in oil prices relative to the previous quarter's closing inventory prices, alongside a government-imposed cap on diesel refining margins. The resulting sharp decline in petroleum product prices led to a significant inventory loss.
- Other expenses recorded a PKR8.5bn reversal, as excess provisions recognized in previous quarters against inventory gains were reversed following the inventory loss incurred during the current quarter.
- The company's trade debts declined by 9% QoQ (c.PKR 40bn) to PKR 415bn, indicating an improvement in collections, with the recovery ratio reaching 105%.
- The company recorded a tax reversal of PKR15.3bn without which NLAT would have been PKR38.3bn (LPS: PKR81.60). ETR for the entire year landed at 72%.

PSO, as expected by the market, posted a very weak result, primarily driven by inventory losses, which remain largely one-off items and can swing significantly depending on the prevailing geopolitical environment. The current quarter's loss partially offset the gains recorded in the previous quarter. With oil prices likely to remain volatile amid the ongoing conflict in the Middle East, inventory gains and losses are likely to remain a recurring feature of PSO's results in the coming quarters. However, we believe investors should look through this volatility and focus on the underlying fundamentals of the business, including improving market share, a reduction in trade debts, the government's continued efforts to address outstanding circular debt, and the potential increase in OMC margins, which remain enduring drivers of core profitability going forward.

PSO: 4QFY26 Result - Unconsolidated

(PKRmn)	4QFY26	4QFY25	YoY	QoQ	FY26	FY25	YoY
Net sales	808,970	812,837	0%	9%	3,050,026	3,149,389	-3%
Cost of sales	842,652	789,421	7%	28%	2,950,088	3,052,679	-3%
Gross Profit	(33,682)	23,417	n.m.	n.m.	99,938	96,710	3%
Distribution expenses	6,648	6,558	1%	18%	23,006	21,078	9%
Administrative expenses	2,886	2,208	31%	60%	8,405	7,432	13%
Other expenses	(8,485)	(180)	n.m.	n.m.	6,076	4,135	47%
Other income	4,788	6,967	-31%	17%	17,516	22,131	-21%
Operating Profit	(29,942)	21,799	n.m.	n.m.	79,968	86,197	-7%
Finance cost	8,369	6,854	22%	42%	25,655	33,718	-24%
Share of profit/loss	2	(529)	n.m.	n.m.	(111)	314	n.m.
Profit Before Taxation	(38,309)	14,417	n.m.	n.m.	54,202	52,793	3%
Taxation	(15,259)	8,774	n.m.	n.m.	39,135	31,881	23%
Profit After Taxation	(23,050)	5,643	n.m.	n.m.	15,068	20,911	-28%
EPS (PKR)	(49.10)	12.02	n.m.	n.m.	32.10	44.54	-28%
DPS (PKR)	10.00	10.00			10.00	10.00	

Source: Company Accounts, IMS Research

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq$ 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of > -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) Worsening of circular debt and constrained cash-flow amid PRL up-gradation, (ii) loss of market share if competition increases in a potentially slowing market, and (iii) volatility in international oil prices erode profitability.

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