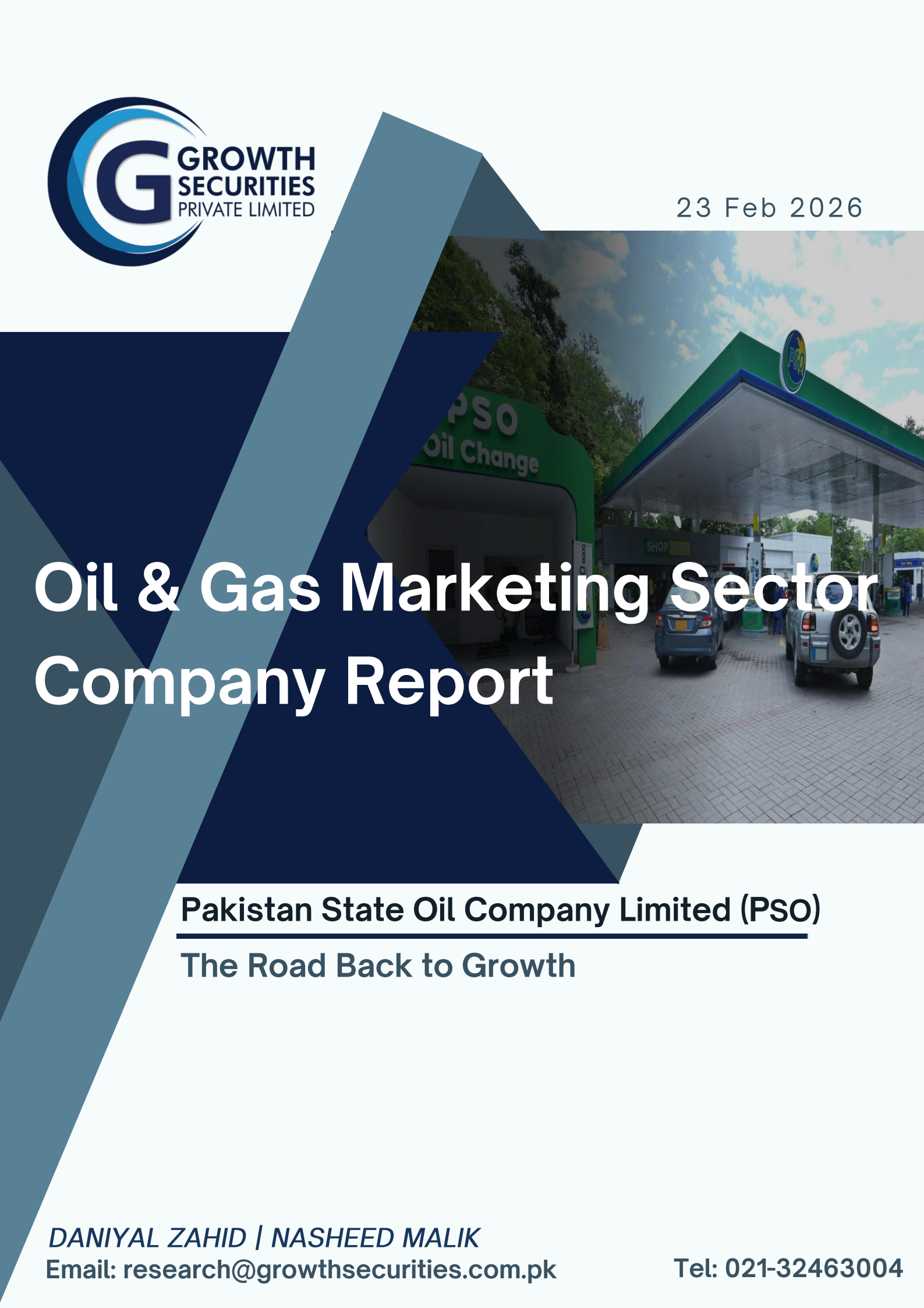




Oil & Gas Marketing Sector Company Report

Pakistan State Oil Company Limited (PSO)

The Road Back to Growth

Executive Summary

We initiate coverage on Pakistan State Oil Company Limited with a BUY recommendation and a Dec'26 target price of PKR 572.5/share, derived on a SOTP framework, which includes PKR 31.2/share attributable to PSO's stake in PRL. Our valuation reflects PSO's transition from a balance-sheet constrained entity toward a normalization phase, underpinned by improving cash flow visibility and structural leadership within Pakistan's downstream energy sector. We forecast EPS of PKR 49.4/share in FY26E and PKR 73.5/share in FY27F. At the current market price of PKR 400.7/share, we believe PSO is materially undervalued, offering a compelling 42.9% upside to our Dec'26 fair value estimate. Our investment thesis is supported by multiple earnings and valuation drivers:

- **Liquidity recovery underway;** Power sector circular debt refinancing establishes a defined pathway for receivable settlement.
- **Gas circular debt represents medium-term upside optionality;** Policy focus expected to shift following power sector reforms.
- **Long-overdue OMC margin revision;** OGRA's proposed PKR 1.22/litre increase expected to enhance operating cash flows in FY27F.
- **Receivables stabilization supporting working capital normalization;** Improved SNGPL collections and recovery mechanisms are turning receivables from a drag into a catalyst.
- **Market leadership remains intact;** supported by PSO's nationwide retail footprint, ~1.24mn tons of storage capacity, and G2G procurement capability.

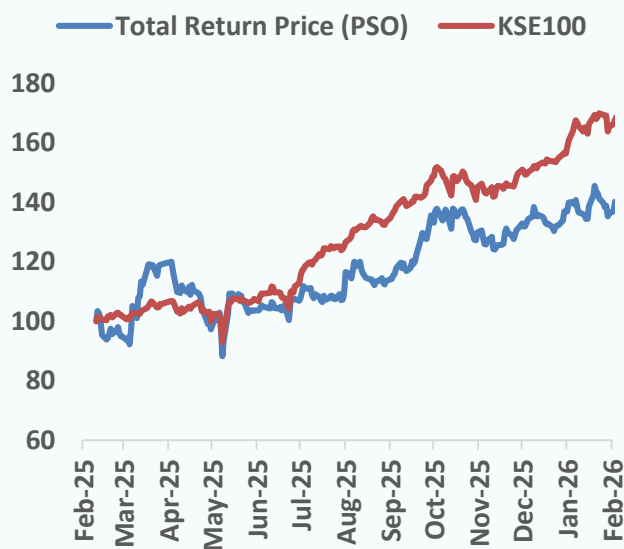
Symbol	PSO
Recommendation	BUY
Current Price (PKR)	400.7
Target Price (PKR)	572.5
Upside	42.9%
Market Cap (PKR Bn)	219.9
Shares (mn)	469.5
Free Float (%)	50%

Source: PSX, Growth Securities

Key Ratios	FY24A	FY25A	FY26E	FY27F	FY28F
EPS	33.8	44.5	49.4	73.5	88.5
EPS YoY	180%	32%	11%	49%	20%
Price Earnings	4.6	6.6	9.5	6.4	5.3
Price to Book	0.3	0.6	0.8	0.7	0.7
Dividend Yield	6.4%	3.4%	2.3%	3.4%	4.1%
Gross Margins	2.7%	3.0%	3.1%	3.3%	3.4%
EBITDA Margins	2.1%	2.3%	2.3%	2.5%	2.6%
Net Margins	0.4%	0.7%	0.8%	1.1%	1.2%
ROE	2.5%	6.6%	8.1%	8.2%	11.1%
ROA	0.6%	1.6%	2.1%	2.5%	3.6%

Source: Company Accounts, Growth Securities

PSO vs KSE100



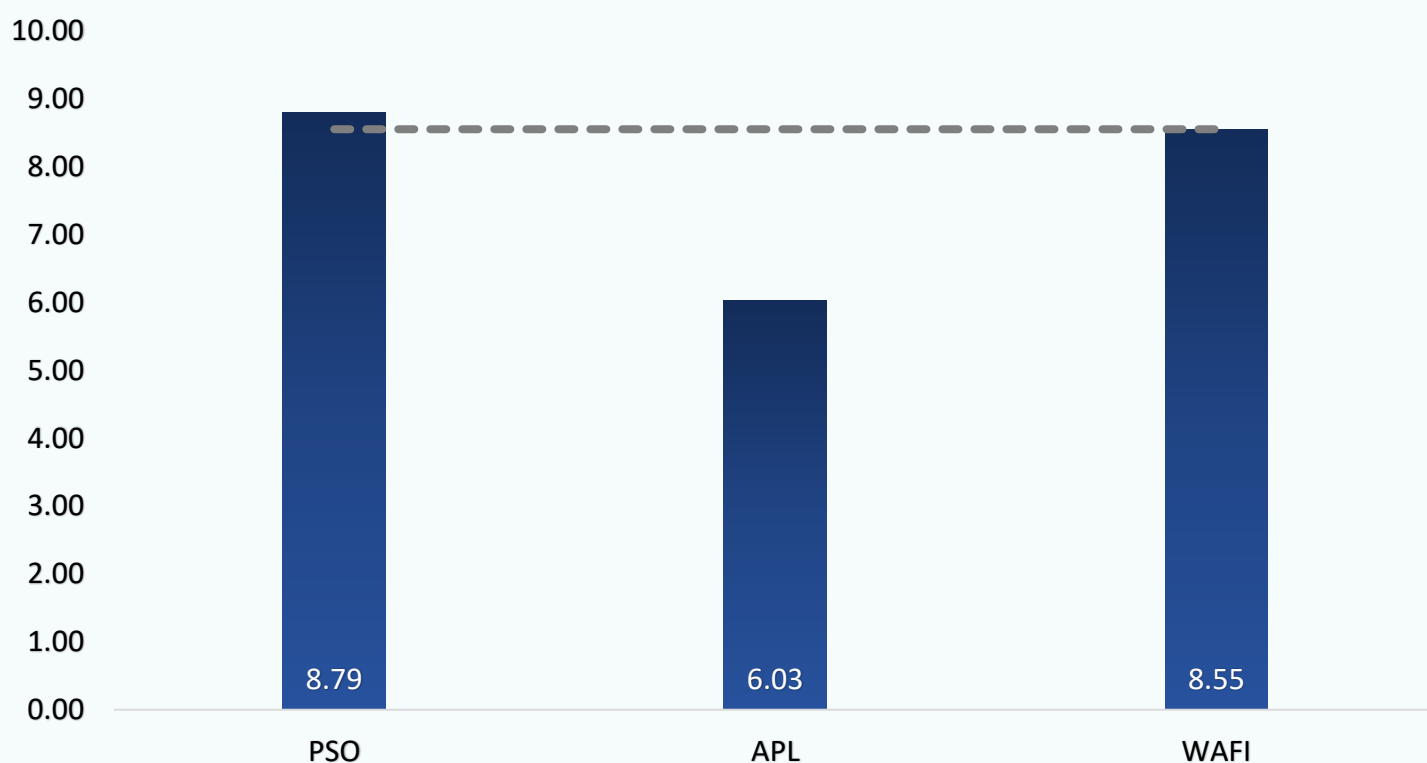
Source: PSX, Growth Securities

Cash flow based & comparative valuations

Cash Flow Based Valuation (FCFF)					
PKRmn	FY27F	FY28F	FY29F	FY30F	FY31F
Net Income	34,492	41,537	49,109	57,609	67,324
Add: Depreciation	4,874	5,340	5,830	6,343	6,883
▲ in Working Capital	21,434	(38,627)	(39,431)	(41,980)	(43,726)
Capital Expenditure	(6,818)	(7,159)	(7,517)	(7,892)	(8,287)
Add: Interest*(1-T)	9,665	10,532	11,183	11,807	12,053
Free Cash Flow to Firm	63,647	11,624	19,174	25,888	34,247
Discount Factor	0.5	1.5	2.5	3.5	4.5
Discounted FCFF	60,506	9,986	14,887	18,165	21,717
PV of Future Cash Flows	125,262				
PV of Terminal Value	444,719				
Enterprise Value	569,981				
Debt Value	315,834				
Equity Value	254,148				
Outstanding shares (mn)	469.5				
Value/Share (PKR)	541.35				
PRL Current Value/Share (PKR)	31.17				
PSO SOTP Value/Share (PKR)	572.52				

Source: Company Accounts, Growth Securities

■ P/E Ratio - - - Median



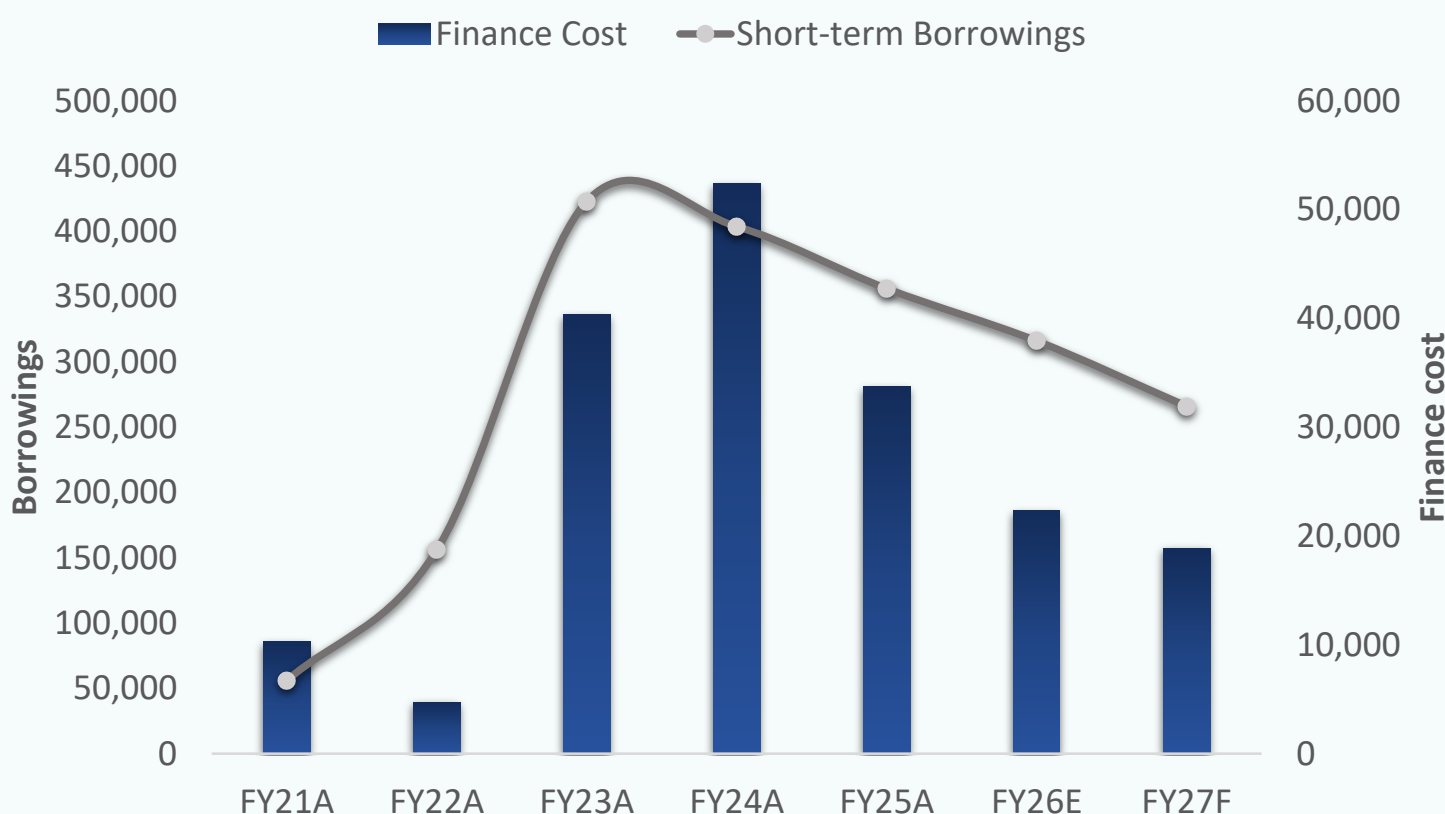
Source: Company Accounts, PSX, Growth Securities

Power Sector Circular Debt – A Structural Liquidity Realignment

Pakistan's power sector circular debt has historically been the largest source of liquidity distortion across the energy value chain, driven by persistent mismatches between generation costs, regulated tariffs, and recovery efficiencies. Circular debt stood at approximately PKR 1.61trn in June 2025, rising further to around PKR 1.69trn by December 2025, highlighting the structural nature of the problem despite periodic government interventions. For PSO, this translated into a material buildup of receivables from RLNG-based power plants routed through SNGPL, significantly extending the company's cash conversion cycle.

Impact on PSO's Balance Sheet and Profitability

Between FY21 and FY24, PSO's short-term borrowings increased sharply (FY21: 220bn, FY24: 488bn) as receivables accumulated across the power chain, while finance costs rose in tandem, compressing profitability. During this period, PSO continued supplying fuel to maintain system stability, effectively financing the sector amid delayed tariff pass-through and weak recoveries by distribution companies. This resulted in elevated working capital requirements and materially higher leverage relative to historical norms.



Source: Company Accounts, Growth Securities

PKR 1.225trn Refinancing Facility – Structural Reset

In September 2025, the government operationalized a PKR 1.225trn refinancing facility with 18 commercial banks, priced at KIBOR minus 0.9% and amortized over 24 quarterly installments (~6 years). The facility replaces higher-cost legacy obligations, including PHPL loans (KIBOR +2%) and IPP penal interest (3M KIBOR +200–450bps), materially reducing system-wide financing costs. Servicing of the facility is funded through a PKR 3.23/kWh Debt Service Surcharge (DSS) applied to electricity tariffs. Importantly, the 10% cap on DSS was removed in FY26, improving recovery certainty and lowering the risk of future accumulation.

Receivable Settlement Mechanism and Cash Flow Visibility

Under this framework, payments flow from CPPA-G → RLNG power plants (NPPMCL, QATPL, Nandipur) → SNGPL → PSO, establishing a defined pathway for receivable settlement. While the framework is now in place, recovery is expected to be staggered, with inflows spread across multiple quarters rather than front-loaded. This is reflected in our model assumptions, which embed gradual working capital normalization rather than immediate cash release.

Upside and Balance Sheet Repair

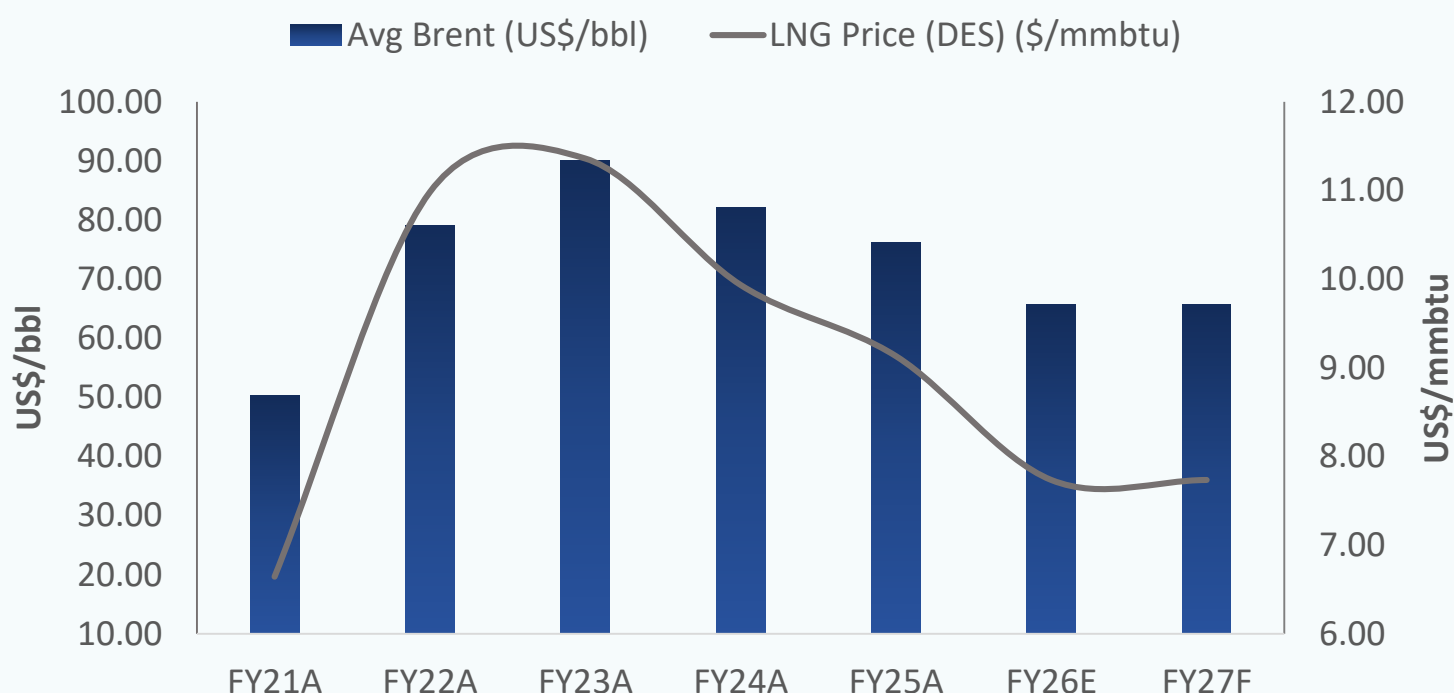
For PSO, this refinancing is a key driver of cash flow expansion. As receivables are recovered and short-term borrowings decline, finance costs are expected to ease, directly supporting operating cash flows. Within our framework, phased receivable recovery and declining interest expense account for a significant portion of the improvement in free cash flow over FY26–FY31. Although execution risks remain, the refinancing materially reduces systemic uncertainty and represents the foundation of PSO's balance-sheet repair and valuation re-rating.

Gas Circular Debt – Pricing Imbalances and Cash Flow Strain

Pakistan’s gas circular debt represents a structural imbalance within the energy value chain, driven primarily by a persistent mismatch between LNG import costs, regulated consumer tariffs, and recovery efficiencies across the gas distribution network. Unlike the power sector—where a PKR 1.225trn refinancing framework has been implemented—the gas sector currently lacks a dedicated settlement mechanism, leaving upstream suppliers and LNG importers exposed to delayed recoveries and elongated cash conversion cycles.

Imported LNG Economics and Tariff Misalignment

At the core of gas circular debt is the widening gap between imported LNG costs and downstream selling prices. Pakistan imports LNG predominantly under long-term contracts, supplemented by spot cargoes, with term LNG historically priced at approximately 10–13% of Brent plus fixed charges. Based on recent Brent averages, this translates into landed LNG costs typically in the range of USD 10–14/mmbtu, before accounting for regasification fees, transmission losses, unaccounted-for gas (UFG), and distribution margins. In contrast, blended consumer gas tariffs—across residential, commercial, and industrial segments—remain materially lower on a weighted basis due to political sensitivity around household pricing and delays in tariff rationalization.



Source: Bloomberg, OGRA, Growth Securities

Accumulating Funding Gap & Upstream Transmission of Stress

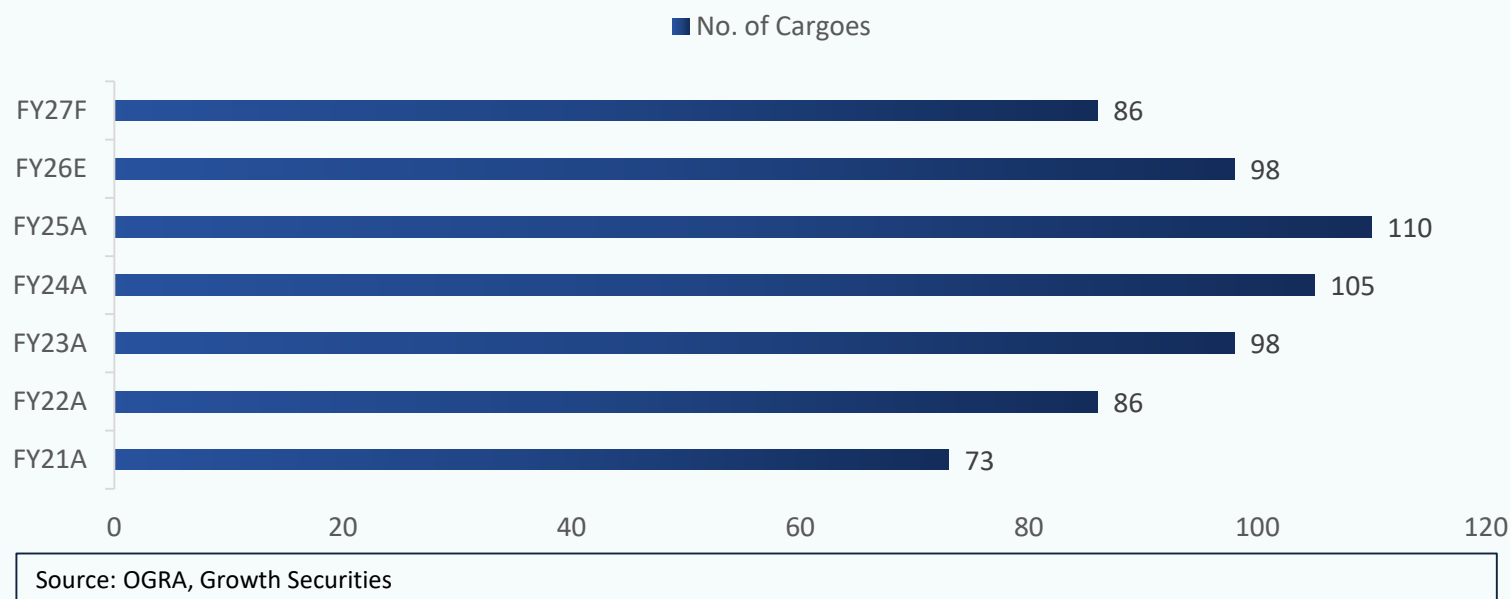
After incorporating system losses, UFG, and delayed subsidy releases, effective recoveries fall short of total supply costs, creating a recurring funding gap that accumulates within gas utilities. This shortfall is transmitted upstream through delayed payments to LNG suppliers and Pakistan State Oil, via SNGPL. As a result, gas circular debt has continued to build, with sector estimates placing outstanding liabilities at approximately PKR 2.5 - 3.0trn, reflecting years of tariff misalignment, weak recoveries from certain consumer categories, and delayed government compensation.

Long-Term LNG Contracts and Exposure to Brent Movements

Pakistan's LNG imports are anchored by long-term supply agreements with Qatar, executed in two major tranches: the first contract (2016) supplies approximately 3.75 mtpa at ~13.37% of Brent, while the second renegotiated contract (2021) provides around 3 mtpa at ~10.2% of Brent. Together, these contracts meet the bulk of Pakistan's baseload LNG requirements, with deliveries spread across the year and spot cargoes procured opportunistically to meet incremental demand. While these arrangements provide relative price stability compared to spot markets, they still expose the system to international oil price movements. When Brent rises sharply or domestic gas demand weakens, the gap between import costs and regulated selling prices widens, accelerating circular debt accumulation.

Surplus LNG and Cargo Diversion Dynamics

More recently, soft gas demand—particularly from the power sector—has resulted in surplus LNG within the system. PSO estimates that approximately 177 LNG cargoes could become excess between Jul-25 and Dec-31 under existing contractual commitments if demand does not recover meaningfully. For FY26, the federal cabinet has already approved diversion of 24–29 Qatar cargoes under Net Proceeds Differential arrangements to manage inventory buildup. Importantly, policy has evolved such that diversion-related losses are increasingly being passed on to RLNG consumers rather than absorbed by PSO, materially reducing the company's direct financial exposure. Nevertheless, surplus cargo management highlights the structural imbalance between contracted LNG volumes and domestic offtake capacity.



Implications for PSO

For PSO, gas circular debt manifests through delayed payments from SNGPL on RLNG supplies, elongated receivable days, higher working capital requirements, and increased reliance on short-term borrowings to fund LNG imports. Even as collections on current billings normalize, legacy balances remain outstanding, constraining liquidity and limiting balance-sheet flexibility. Unlike the power sector, there is currently no refinancing facility or formal recovery pathway for accumulated gas-sector liabilities.

Policy Outlook

Policy discussions have centered on potential remedies including incremental petroleum levies, redirection of dividends from state-owned upstream entities, and gradual tariff rationalization. However, no finalized framework has been announced to date. With power sector circular debt now formally addressed, gas circular debt is increasingly viewed as the next major policy challenge within Pakistan's energy framework.

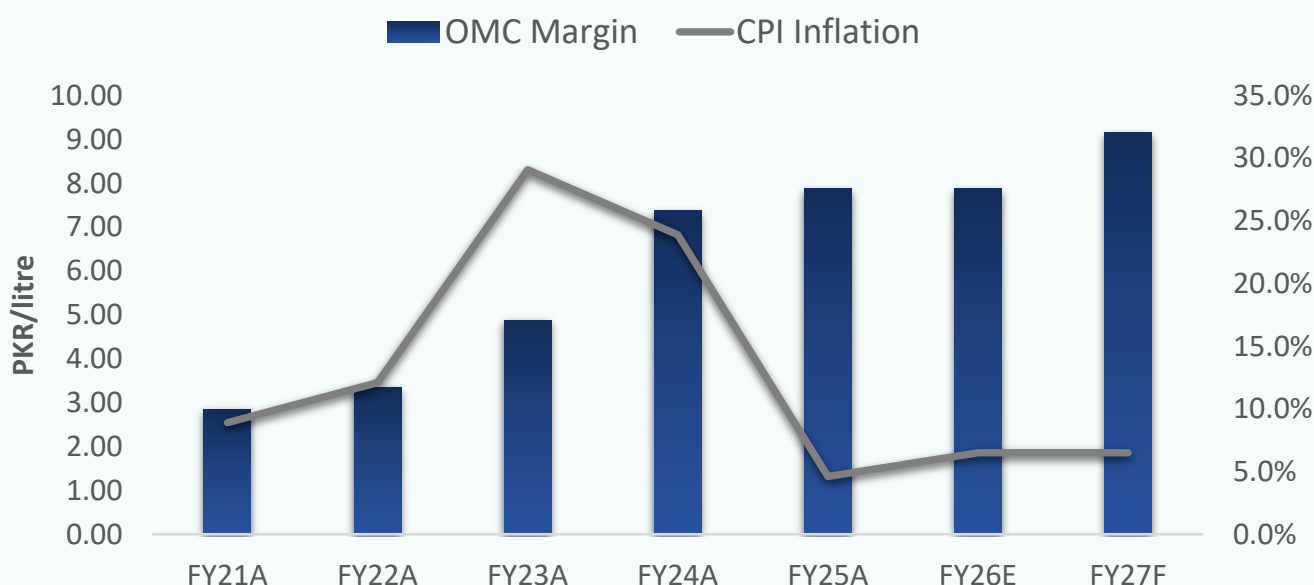
Within our framework, we incorporate a phased recovery of gas circular debt over the medium term, reflecting gradual policy normalization rather than front-loaded settlements. Any structured resolution—whether via fiscal support, tariff realignment, or dedicated refinancing—would provide incremental liquidity upside for PSO by accelerating receivable recovery, reducing dependence on short-term borrowing, and further strengthening free cash flow generation. As such, gas circular debt represents a potential re-rating catalyst over the medium term, although visibility on timing remains limited.

OMC Margin Framework

OMC margins currently stand at approximately PKR 7.87/litre on Motor Spirit (MS) and High-Speed Diesel (HSD) under OGRA's regulated pricing framework. These margins have remained unchanged since September 2023, despite a material increase in operating costs across the downstream sector. OMCs have faced rising expenses related to transportation, storage, security, staff costs, inventory financing, and regulatory compliance, alongside growing capital requirements linked to mandated digitization of retail outlets, automation of dispensing systems, electronic invoicing, and enhanced reporting to OGRA, FBR, and the Ministry of Energy. The absence of margin adjustment over this period has resulted in compressed profitability and constrained reinvestment capacity across the sector.

Approved Margin Uplift

Recognizing this imbalance, the Economic Coordination Committee has approved a phased margin uplift linked to digitization milestones, with the proposed increase broadly aligned around PKR 1.2–1.3/litre. However, implementation remains subject to regulatory timelines, compliance verification, and competitive dynamics, particularly amid aggressive discounting by certain market participants. OMC margin increase is directionally supported at the policy level, therefore, we have incorporated margin increase from FY27 onwards.



Source: OGRA, PBS, Growth Securities

Model Assumptions – Deferred Relief with FY27 Impact

Reflecting this uncertainty, our model conservatively assumes no increase in OMC margins during FY26, incorporating the impact of ongoing competitive pressure and execution risk around digitization requirements. From FY27 onward, we implement a PKR 1.28/litre margin increase, which materially enhances PSO's earnings profile given its dominant volume base. With annual sales volumes running into several billion litres, this uplift translates into a significant improvement in operating profit and free cash flow generation, directly strengthening FCFF and accelerating balance-sheet deleveraging.

Valuation Impact – Primary Operational Earnings Lever

Within our framework, OMC margin revision represents the single largest operational earnings lever. Successful implementation from FY27 provides a structural uplift to PSO's cash flows, reinforcing our investment thesis and supporting valuation re-rating over the medium term.

OMC Margin Sensitivity		
Incremental Increase	Total Margin	FY27 EPS
1.0	8.87	67.06
2.0	9.87	84.11
3.0	10.87	101.15
4.0	11.87	118.19
5.0	12.87	135.24

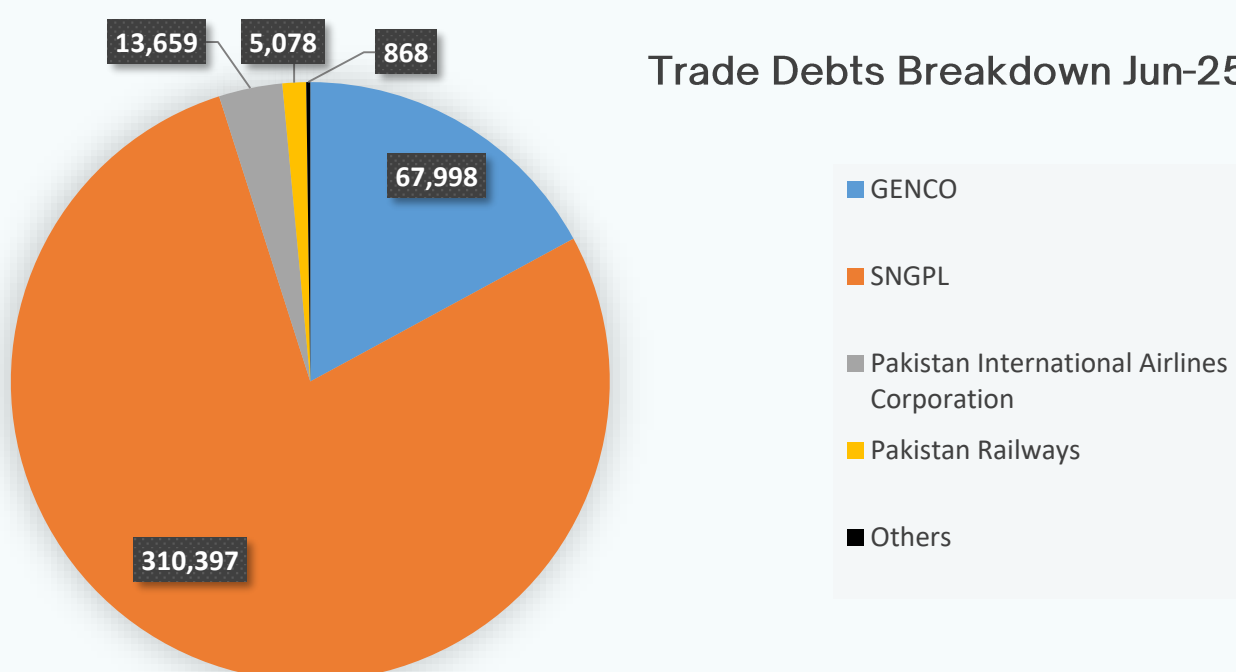
Source: Company Accounts, OGRA, Growth Securities

Receivables – Structural Driver of Balance-Sheet Volatility

Receivables have historically been the primary driver of PSO's balance-sheet volatility, reflecting systemic inefficiencies across Pakistan's energy value chain rather than company-specific execution. During FY21–FY24, PSO experienced a material buildup in trade receivables as payments from power plants, gas utilities, and government-linked counterparties were delayed amid tariff mismatches and weak recovery by distribution entities. This resulted in a prolonged cash conversion cycle, forcing PSO to fund operational requirements through increased short-term borrowings.

Outstanding Exposure – GENCO, PIA, and Gas Receivables

As of Jun-25, PSO's outstanding receivables included approximately PKR 68bn from GENCO and PKR 13.7bn from PIA, in addition to exposures across the RLNG and gas distribution chains routed through SNGPL. While recovery prospects from GENCOs and PIA remain limited, the key development over the past year has been the absence of fresh buildup. This stabilization has been driven by a structural decline in furnace oil-based power generation, lower FO dispatch volumes, and gradual improvements in sector recoveries following tariff adjustments..



Source: Company Accounts, Growth Securities

Trade Debts Breakdown

PKRmn	Jun-25
GENCO	67,998
SNGPL	310,397
Pakistan International Airlines Corporation	13,659
Pakistan Railways	5,078
K-Electric Limited	10
Oil & Gas Development Corporation Limited	744
Pakistan Petroleum Limited	34
Sui Southern Gas Company Limited	12
WAPDA Foundation	68
Civil Aviation Authority	0.28
Total	397,999

Source: Company Accounts, Growth Securities

Price Differential Claims (PDC) – Clearance Progress

Resolution of legacy Price Differential Claims has gained meaningful traction over the past year. During Jun'24, PSO received PKR 3.4bn related to LSFO supplied to KAPCO at HSFO-equivalent pricing, alongside PKR 3.7bn for furnace oil provided to K-Electric at natural gas benchmark rates, bringing residual balances down to just PKR 254mn. As of Jun'25, outstanding PDC claims amount to approximately PKR 2.2bn, which management continues to actively engage on with the government and expects to recover. Given recent settlement momentum and established recovery patterns, we view these balances as a source of near-term liquidity support rather than an ongoing structural drag on receivables.

Sales Tax Refundable – IFEM-Based Resolution Underway

PSO's receivables also include sales tax refundable balances arising from the government's reclassification of POL products from zero-rated to exempt, which prevented adjustment of input costs against output taxes. Sector-wide, refineries and OMCs incurred losses of approximately PKR 34bn in FY25 as a result, with PSO's sales tax refundable rising by PKR 18.5bn during the year. Following consultations with the Prime Minister, the government approved an increase in IFEM of PKR 1.87/litre for FY26.

This introduction of IFEM-based recovery mechanisms, which embed freight and financing costs directly into the price is expected to generate around PKR 30-35bn based on FY26 volumes, which will be passed through to OMCs and refineries to offset input sales tax losses. This mechanism provides a defined recovery pathway and is expected to materially ease PSO's liquidity pressures for the year while supporting balance-sheet normalization.

PSO sales tax refundable over time

PKRmn	FY21A	FY22A	FY23A	FY24A	FY25A
Sales Tax Refundable	758	13,450	29,280	55,654	74,191

Source: Company Accounts, Growth Securities

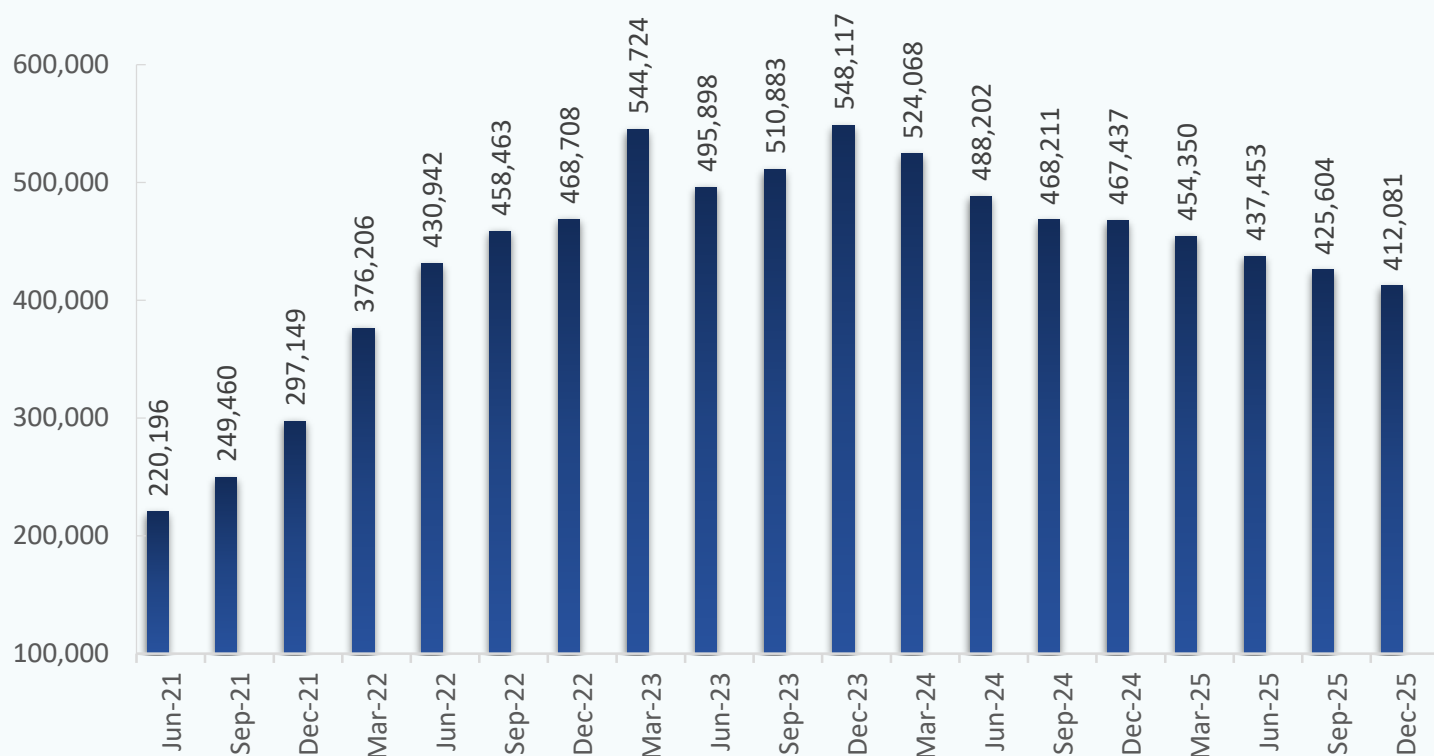
Stabilization with Gradual Medium-Term Unwinding

Despite stabilization, absolute receivable levels remain fairly elevated relative to historical norms, continuing to exert pressure on working capital. However, with power sector refinancing now operational and cash flows expected to move on a structured basis, PSO is positioned to begin unwinding accumulated balances over the medium term. Within our framework, we model gradual receivable recovery over multiple periods rather than front-loaded inflows, reflecting the staggered nature of settlements under the refinancing program. Furthermore, Receivables from GENCOs and PIA, totaling approximately PKR 82bn, are treated conservatively and excluded from base-case valuation since efforts to recover like asset swaps with GENCO have been unsuccessful so far. As these counterparties remain structurally constrained, recovery timelines remain uncertain. However, stabilization of these balances, combined with improving recoveries from SNGPL and power sector counterparties, supports normalization in PSO's working capital cycle.

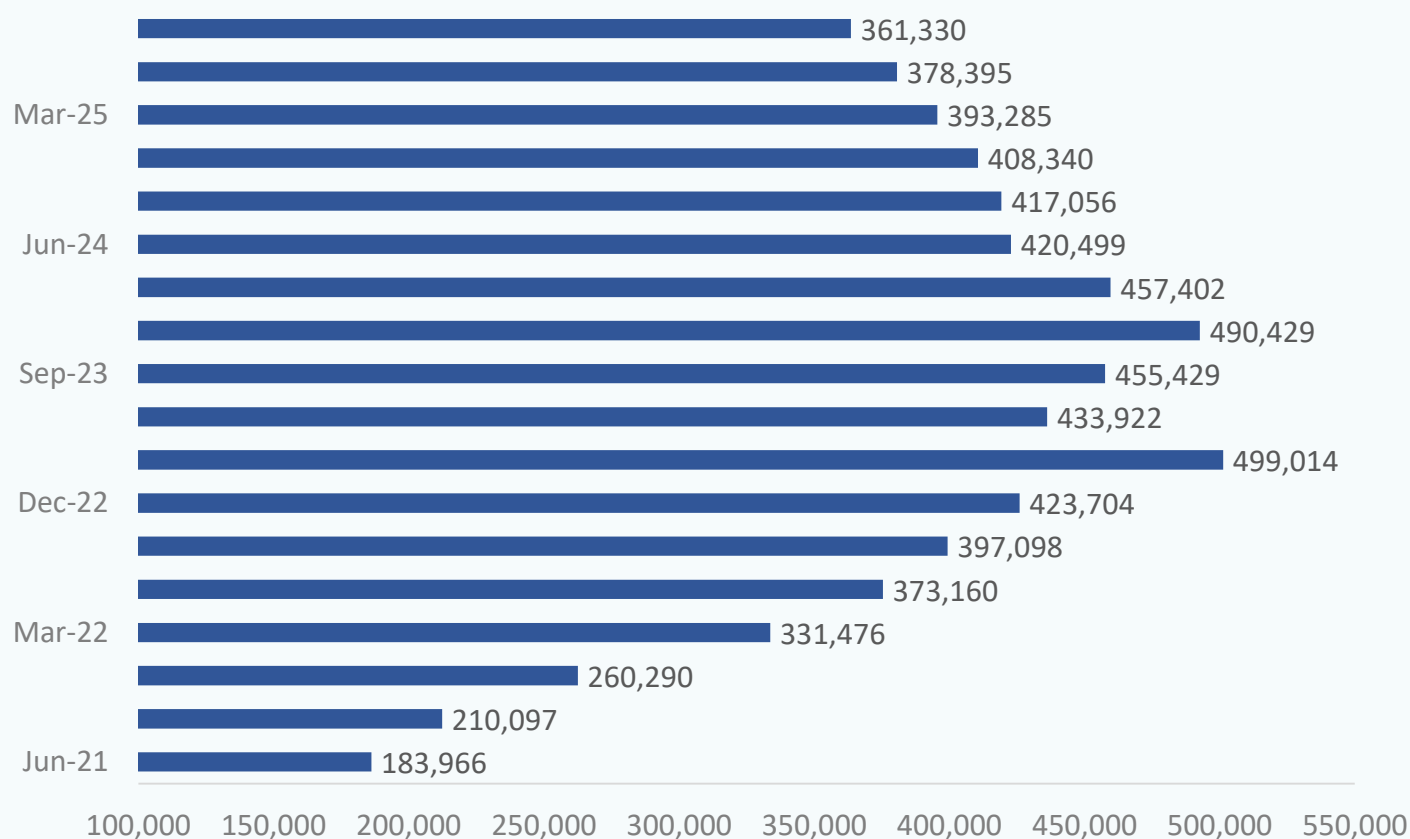
Working Capital Dynamics – Turning the Corner

For PSO, the transition from receivable accumulation to stabilization represents a critical inflection point. As outstanding balances gradually decline and collection efficiency improves, reliance on short-term borrowings is expected to ease, reducing finance costs and directly supporting free cash flow generation. This dynamic forms a central pillar of our valuation and underpins our expectation of balance-sheet repair over FY26–FY31.

Trade Debts



Circular Debt Receivables

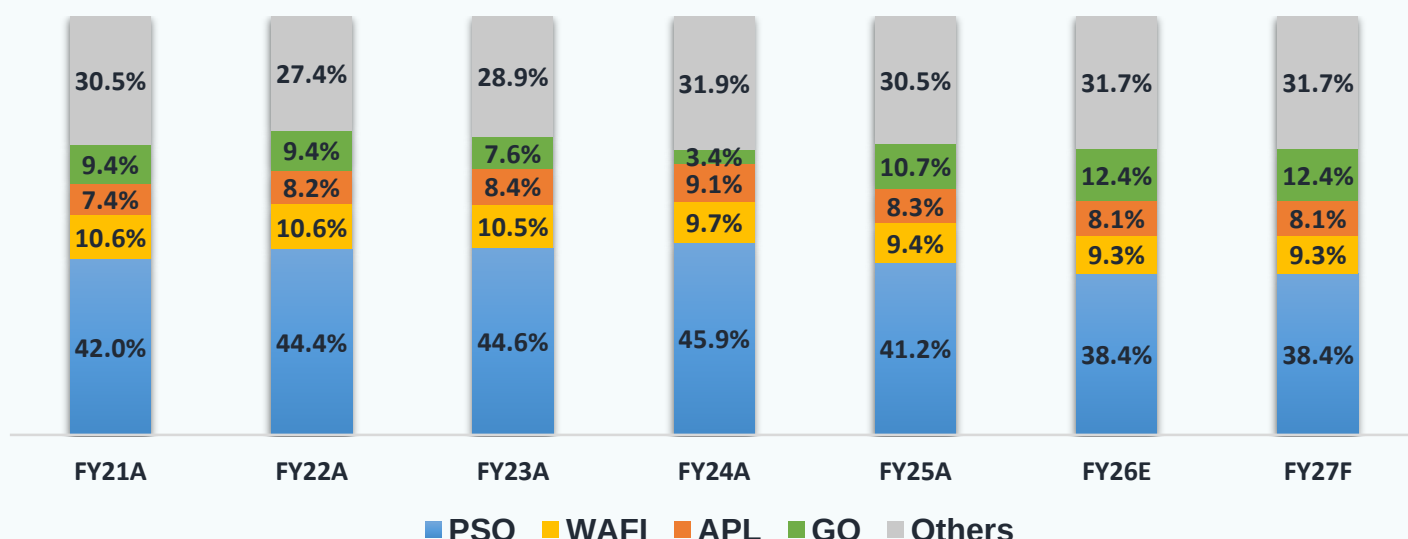


Source: Company Accounts, Growth Securities

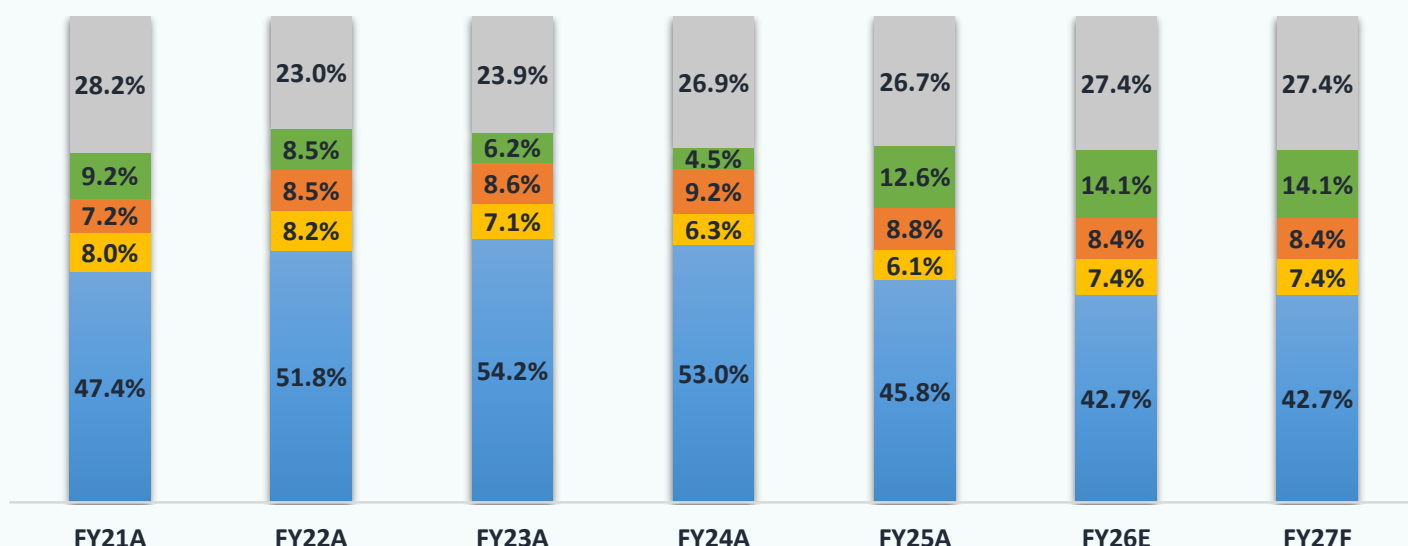
Market Leadership – Structural Scale Advantage

Market leadership remains intact, supported by PSO's nationwide retail footprint, ~1.24mn tons of storage capacity, and government-to-government procurement capability, positioning the Company to regain volumes as pricing discipline normalizes post Jun-26. While recent competitive discounting has temporarily pressured market share, PSO's structural advantages remain difficult to replicate: the company operates the broadest distribution network in the country, maintains the largest storage and supply infrastructure, and retains procurement flexibility that becomes particularly valuable during periods of supply tightness or pricing normalization. As the sector transitions away from uneconomic volume competition, these scale benefits are expected to reassert, enabling PSO to recapture demand without compromising margins.

Market Share MOGAS



Market Share HSD

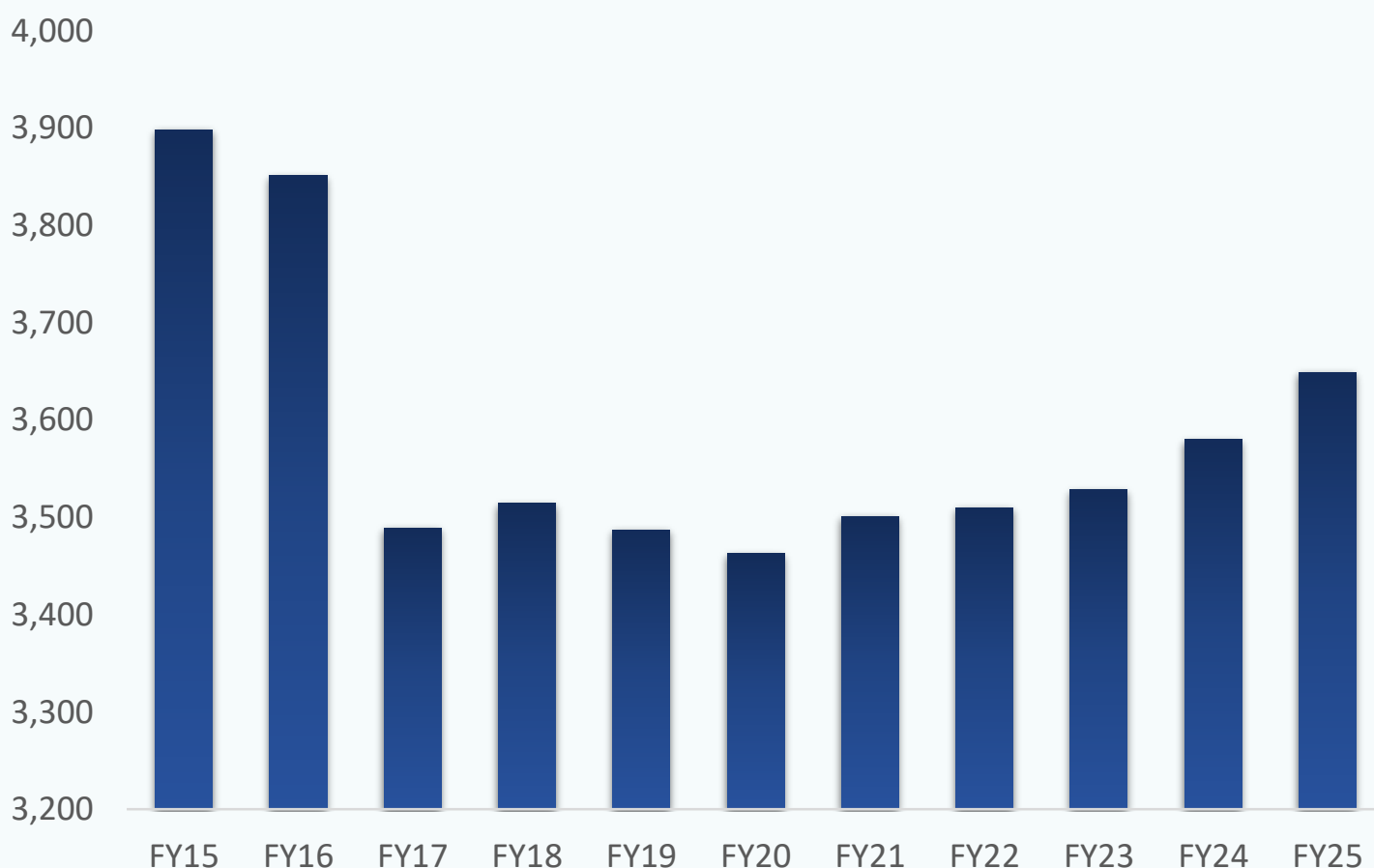


Source: OCAC, Growth Securities

Retail Expansion – Reinforcing Lever for Volumes

Within this market leadership context, retail expansion serves as a reinforcing—rather than primary—driver. In FY25, PSO added 100+ new retail outlets, taking its network to approximately 3,649 stations, which strengthens access, improves coverage in high-throughput corridors, and supports incremental volumes once pricing discipline returns. Importantly, given PSO’s existing infrastructure base, additional retail throughput provides operating leverage through better fixed-cost absorption across logistics and storage, while increasing exposure to higher-margin white oil products, particularly MS. As liquidity improves and investment capacity normalizes, retail expansion enhances PSO’s ability to convert its structural leadership into sustainable volumes and cash flows over the medium term.

Retail Outlets



Source: Company Accounts, Growth Securities



EV Charging – Strategic Optionality in Energy Transition

PSO's entry into electric vehicle charging reflects a measured approach toward positioning the company for Pakistan's long-term energy transition. Through its partnership with HUBCO Green, PSO plans to deploy approximately 128 DC fast chargers over the next 2–3 years, with the first station already commissioned along the M-2 motorway. This initiative aligns with Pakistan's New Electric Vehicle Policy, which targets meaningful penetration of EVs in new vehicle sales by 2030.

While EV charging is not expected to contribute materially to earnings in the near term, it offers strategic optionality by leveraging PSO's extensive retail footprint and prime highway locations. Over time, integration of EV infrastructure within PSO's network could create incremental revenue streams, enhance customer engagement, and reinforce PSO's relevance as mobility patterns evolve.

From an investment perspective, EV charging should be viewed as a long-duration option rather than a near-term earnings driver. Capital commitments remain modest relative to PSO's core operations, while potential upside lies in first-mover advantage and the ability to monetize future shifts in fuel consumption behavior.

Line-Fill Reimbursement – Support to Earnings and Cash Flows

The introduction of line-fill reimbursement by OGRA represents a meaningful regulatory development for Pakistan’s downstream sector. Under this mechanism, Oil Marketing Companies are compensated for financing costs associated with maintaining mandatory pipeline inventory levels, with reimbursement linked to the prevailing SBP discount rate.

For PSO, this translated into approximately PKR 8.6bn in FY24 and PKR 5.9bn in FY25, providing a recurring income stream that partially offsets inventory financing costs and improves earnings quality. Given PSO’s scale and extensive pipeline exposure, line-fill reimbursement carries disproportionate benefit relative to smaller peers.

The introduction of line-fill cost recovery represents an important regulatory initiative intended to compensate OMCs for the financing cost of holding mandatory pipeline inventory. Under the existing mechanism, OMCs can recover financing costs at a benchmark linked to KIBOR. However, industry bodies such as OCAC have recently urged OGRA to revise the methodology to allow recovery at actual financing costs, noting that the current treatment results in unrecovered financing expenses. As of early 2026, this matter remains under active review, and full alignment to actual cost has not yet been implemented, meaning line-fill cost recovery provides partial cash-flow relief but does not currently eliminate the financing cost burden entirely.

While line-fill reimbursement does not fully resolve sector-wide liquidity challenges, it represents an important step toward aligning regulatory economics with operational realities and provides a stable earnings tailwind for PSO over the medium term.

PSO Reimbursement of financial charges on line fill cost

PKRmn	FY24A	FY25A	FY26E	FY27F
Reimbursement	8,573	5,899	4,240	3,549

Source: Company Accounts, Growth Securities

Key Risks

– Competitive Pressure from GO and Market Share Volatility

PSO continues to face competitive pressure from Aramco-backed GO, primarily driven by aggressive retail discounting aimed at rapid market share acquisition. This pricing behavior has weighed on sector margins and temporarily pressured PSO's volumes, as PSO has chosen to maintain pricing discipline rather than participate in uneconomic volume growth.

Separately, GO benefits from a CCP exemption that allows Aramco to directly fulfill GO's fuel supply requirements, providing procurement flexibility and supply assurance that supports its expansion strategy. While this exemption does not directly permit discounting below regulated margins, it strengthens GO's supply chain and enables faster footprint growth. The exemption is scheduled to expire in June 2026, after which competitive dynamics are expected to normalize, reducing the intensity of price-led competition.

Although PSO retains structural advantages through its nationwide footprint, ~1.24mn tons of storage capacity, and government-to-government procurement capability, prolonged discount-driven competition could delay volume recovery and weaken operating leverage. Our base case assumes partial market share normalization post Jun-26; failure to regain lost volumes would moderate earnings recovery and free cash flow expansion.

– Regulatory and Policy Risk

PSO operates within a heavily regulated framework, exposing it to changes in petroleum levies, sales tax treatment, IFEM adjustments, and pricing formulas. Policy reversals—such as delays in IFEM-based recovery, changes to sales tax mechanisms, or adverse amendments to line-fill reimbursement—could negatively impact cash flows.

Furthermore, the absence of a finalized gas circular debt resolution framework introduces uncertainty around future recoveries. Any unfavorable policy outcome would reduce medium-term liquidity upside currently treated as optionality in our model..

– Volatility in International Oil Prices and Demand Disruptions

Sharp movements in Oil prices impact PSO through inventory valuation effects, working capital requirements, and consumer demand elasticity. Elevated prices tend to suppress retail volumes, while rapid price declines can result in inventory losses. Heightened geopolitical uncertainty—including ongoing conflicts in key energy-producing regions—adds an additional layer of volatility to global oil markets, increasing the likelihood of abrupt price swings. Escalation risks related to regional wars, supply-route disruptions, or sanctions could trigger sharp spikes in Brent and Crude prices, amplifying working capital needs and pressuring downstream demand.

In addition, weaker domestic demand—particularly from the power sector—has already led to surplus LNG cargoes and forced diversions. Continued demand softness, combined with externally driven price volatility, would increase operational uncertainty and could pressure throughput across PSO's logistics and retail network, delaying normalization of volumes and cash flow recovery.

– Macroeconomic and Interest Rate Risk

Although interest rates are on a declining trajectory, PSO remains sensitive to funding costs given its historically elevated working capital requirements. Any reversal in monetary easing or renewed pressure on PKR could increase borrowing costs and offset gains from balance-sheet normalization.

– Delay in Circular Debt Resolution and Receivable Recovery

Our investment thesis assumes gradual normalization of PSO's working capital profile driven by power sector refinancing and stabilization of receivables. Any delay in the execution of the refinancing framework, or slippage in quarterly recoveries routed to PSO, would defer cash inflows and prolong reliance on short-term borrowings.

Similarly, while current collections from SNGPL have improved to above 100% of billings, legacy balances across RLNG and gas chains remain outstanding. In our model, receivable recovery is phased over multiple years; slower-than-expected unwind would directly impact free cash flow, elevate finance costs, and pressure valuation. Gas circular debt represents an additional medium-term risk, as no formal settlement mechanism has yet been announced. Continued accumulation would constrain liquidity and limit balance-sheet flexibility, delaying the re-rating we expect from structural normalization.

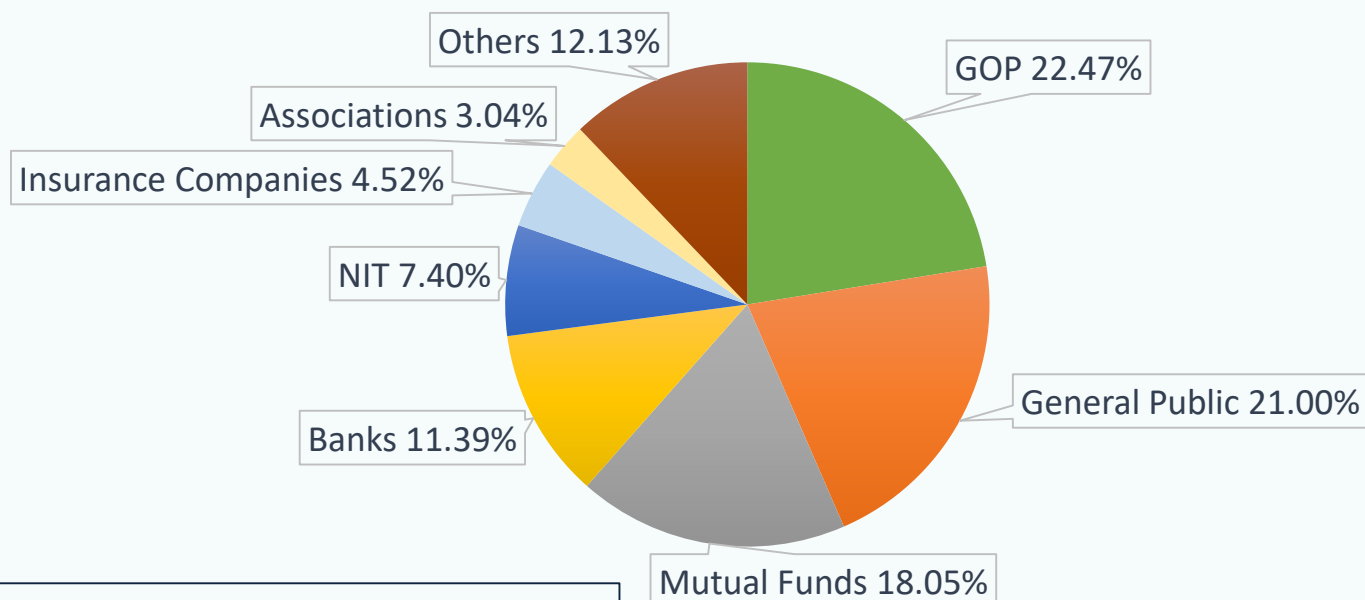
Company Overview

Pakistan State Oil Company Limited (PSO) is Pakistan's largest oil marketing company and a state-owned enterprise of strategic importance to the country's energy supply chain. Headquartered in Karachi, the Company is engaged in the import, storage, distribution, and marketing of petroleum products, including Motor Spirit, High-Speed Diesel, Furnace Oil, and aviation fuels nationwide. With an extensive retail network of approximately 3,649 outlets and the largest storage infrastructure in the sector (~1.24mn tons), PSO commands a leading market share of around 44% in petroleum products.

PSO serves a diversified customer base comprising the power sector, aviation industry, industrial consumers, transport operators, and retail customers. In addition to its core downstream operations, the Company plays a central role in Pakistan's liquefied natural gas (LNG) supply chain, acting as the largest LNG importer under both long-term supply contracts and spot procurement arrangements.

The company has a balanced ownership structure, with the Government of Pakistan holding approximately 22.5% of the issued share capital, reflecting its strategic importance, while the remaining shareholding is distributed among institutional investors, asset management companies, employee trusts, and public shareholders. With a substantial free float and active institutional participation, PSO maintains strong visibility and liquidity on the Pakistan Stock Exchange, reinforcing its position as a cornerstone of the country's energy ecosystem.

PSO Shareholding pattern as at June 2025



Source: Company Accounts, Growth Securities

Financial Highlights

Income Statement

PKRmn	FY24A	FY25A	FY26E	FY27F	FY28F
Net sales	3,571,750	3,149,389	2,986,426	3,174,737	3,465,152
Cost of sales	(3,475,090)	(3,053,680)	(2,894,068)	(3,068,542)	(3,345,921)
Gross profit	96,661	95,711	92,210	106,195	119,231
Dist. Exp.	(17,889)	(21,078)	(21,347)	(22,592)	(24,338)
Admin Exp.	(6,296)	(7,432)	(7,488)	(8,049)	(8,652)
Operating profit	72,476	67,201	63,376	75,554	86,241
Depreciation & amortisation	3,704	4,821	5,107	4,874	5,340
EBITDA	76,180	72,021	68,483	80,428	91,581
Finance cost	(52,338)	(33,719)	(22,309)	(18,491)	(19,245)
Other Income	23,562	23,131	16,502	13,451	14,067
Other Exp.	(3,908)	(4,135)	(4,099)	(4,620)	(5,258)
Share of associates' profit	1,625	314	94	94	94
Profit before tax	41,417	52,793	53,563	65,987	75,899
Taxation	(25,555)	(31,881)	(30,352)	(31,495)	(34,362)
Profit After Tax	15,862	20,912	23,210	34,492	41,537
EPS (PKR)	33.8	44.5	49.4	73.5	88.5
DPS (PKR)	10.0	10.0	10.9	16.2	19.5

Source: Company Accounts, Growth Securities

Balance Sheet

PKRmn	FY24A	FY25A	FY26E	FY27F	FY28F
Non-Current Assets	68,126	81,430	83,534	85,522	87,387
Current Assets	906,322	937,648	852,450	848,114	920,964
Total Assets	974,448	1,019,078	935,985	933,636	1,008,351
Equity	231,309	250,291	268,395	295,299	327,697
Non-Current Liabilities	18,001	23,740	23,599	24,490	25,268
Current Liabilities	725,139	745,047	643,991	613,848	655,385
Total Equity & Liabilities	974,448	1,019,078	935,985	933,636	1,008,351

Source: Company Accounts, Growth Securities

Assumptions

	FY24A	FY25A	FY26E	FY27F	FY28F
Policy rate	21.9%	14.6%	11.0%	10.0%	10.0%
PKR/USD (Avg)	283.1	279.5	280.9	295.0	309.7
Brent Oil (US\$/bbl)	84.1	72.9	65.6	65.6	65.6
Arab Light (US\$/bbl)	87.4	75.2	66.2	66.2	66.2
LNG Cargoes	105.0	110.0	98.0	86.0	86.0
LNG Price (DES) (\$/mmbtu)	9.9	9.1	7.7	7.7	7.7
Petrol Price (Rs/litre)	282.1	255.6	265.3	281.7	291.7
Diesel Price (Rs/litre)	287.4	260.3	272.1	288.0	298.6
MOGAS Volumes (000' Tons)	3,276.1	3,128.8	3,160.5	3,416.3	3,680.7
Diesel Volumes (000' Tons)	3,321.6	3,153.4	3,102.8	3,293.6	3,478.9

Source: SBP, Bloomberg, OGRA, OCAC, Growth Securities

Analyst Certification and Disclosures

The research analyst(s), on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors, (2) research analyst or persons associated with research analyst or their financially dependent close relative has

no financial interest in the securities of the subject company (3) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report, (4) Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months, (5) the subject company currently is, and during the 12 month period preceding the date of publication or distribution of the research report was not a client of the

research analyst, and (6) research analyst or persons associated with research analyst have not received any compensation for corporate advisory services in the past 12 months from subject company and will not receive any compensation from the subject company in next three months.

Rating System and Valuation Methods

‘Buy’ – Total stock return > 15%

‘Hold’ – Total stock return > 0% and < 15%

‘Sell’ – Total stock return < 0%

Growth Securities (Pvt.) Limited uses different valuation methods such as 1) Discounted Cash Flow, 2) Relative Valuation (PE, PB, PS etc.), 3) Asset Based Valuation etc.

Disclaimer

This report has been prepared by Growth Securities and is provided for information purposes only. This should not be considered as research report under the research analyst regulations. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Growth Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Growth Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Growth Research Department and do not necessarily reflect those of Growth or its directors. Growth as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. All rights reserved by Growth Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Growth Securities. Action could be taken for unauthorized reproduction, distribution or publication.