Day Break

Friday, 22 June 2018

COMPANY UPDATE

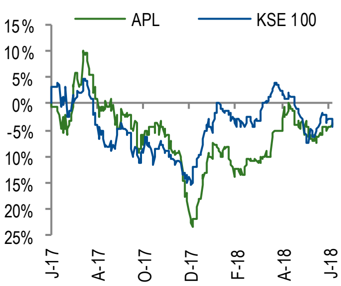
Attock Petroleum Limited
Oil & Gas Marketing Companies

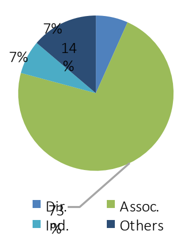
Recommendation			**BUY**
Target Price:			740.3
Last Closing:	21-Jun-18		615.0
Upside:			20.4
Valuation Methodology:	Discounted Cash Flow (DCF)		
Time Horizon:			Dec-18
Market Data			
Bloomberg Tkr.			APL PA
Shares (mn)			82.9
Free Float Shares (mn)			20.7
Free Float Shares (%)			25.0%
Market Cap (PKRbn | USDmn)		51.0	419.8
Exchange			KSE 100
Price Info.	90D	06M	12M
Abs. Return	7.0	25.5	(3.7)
Lo	571.9	490.0	490.0
Hi	639.4	639.4	703.9

Key Company Financials
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	138.7	169.8	190.2	190.9
Net Income	5.3	5.5	5.6	6.2
EPS (PKR)	63.9	66.1	68.1	74.4
DPS (PKR)	43.0	45.0	50.0	62.5
Total Assets	38.4	38.9	38.7	37.5
Total Equity	16.3	17.9	19.4	20.4
Key Financial Ratios				
ROE (%)	32.5	30.7	29.1	30.3
P/E (x)	9.6	9.3	9.0	8.3
P/B (x)	22.7	3.1	2.9	2.6
DY (%)	7.0	7.3	8.1	10.2

Relative Price Performance





About the Company

The Company was incorporated in Pakistan as a public limited company on December 3, 1995 and it commenced its operations in 1998. The principal activity of the Company is procurement, storage and marketing of petroleum and related products. Pharaon Investment Group Limited Holding s.a.l holds 34.38% (2016: 34.38%) shares of the Company.

Source: Bloomberg, PSX & IGI Research

Abdullah Farhan
Research Analyst
Abdullah.farhan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas Marketing Companies

APL: Striving to regain lost footprints; maintain 'BUY'

- We have revised upwards our earnings for Attock Petroleum Limited (APL) by +3%/+5%/+9% for FY18/19/20F on the back of a) increased prices of Furnace oil (FO) which has surged by +24% on average in FY18, b) increased prices and sales for asphalt and, c) +22%/+5%YoY growth in MS/HSD sales. As a result our target price is revised upwards by +9% to PKR 740.0/share (from previous PKR 677/share) after incorporating the aforementioned changes in assumption,
- The GoP has imposed super tax of 3% which will gradually phase out by 1% by FY21 and reduction of 1% annually in corporate tax to reach 25% by FY23,
- APL has aggressively pursued expansion in to retail outlets with number of retail outlets increasing to 618 till Mar-18 compared to 563 in FY16. We expect retail outlet to reach 628 which in our view will further boost MS and HSD sales,
- We still maintain a 'BUY' call on APL with our revised Dec-18 target price of PKR 740.3/share offering 20% upside from last close. The Company is currently trading at FY18E/19F P/E of 9.3x/9.0x and offers the highest dividend yield of 7.3% among its peers.

Earnings revised to reflect higher prices, improved sales and recent tax measures imposed in Budget 2018-19; 'BUY' call intact

We have revised upwards our earnings for Attock Petroleum Limited (APL) by +3%/+5%/+9% for FY18/19/20F on the back of a) increased prices of Furnace oil (FO) which has surged by +24% on average in FY18, b) increased prices and sales for asphalt and, c) +22%/+5%YoY growth in MS/HSD sales. We have also incorporated imposition of super tax phasing out by FY21 and reduction of 1% annually in corporate tax to reach 25% by FY23. As a result our target price is revised upwards by +9% to PKR 740.3/share (from previous PKR 677/share) after incorporating the aforementioned changes in assumption. The scrip offers an upside of 20% from last close and we prefer our liking for the stock on the basis of healthy dividend yield of 7.3%.

FO and Asphalt prices on the rise

FO prices have increased by nearly ~59% in FY18TD on the back of PKR depreciation and rise in international oil prices. As a result, OMC margins have picked up substantially in FY18 and post imposition of ban on FO based power generation. APL witnessed depressed FO sales only during Nov-Dec'17 as it supplies most of its FO to Attock Gen Power plant which resumed operations due to its high efficiency and to meet demand and supply gap. Furthermore, asphalt prices have also been on the rise due to higher demand amid rise in infrastructure development. As a result, asphalt sales have risen to nearly 0.33mn Mtons in FY18TD compared to 0.27mn Mtons in FY17 which is higher margin product for OMCs, and APL holds more than 70% market share.

Volumes likely to grow by +9%YoY in FY18…

We estimate APL's total volumes to grow by +9%YoY in FY18 on the back of +22%/+5%YoY growth in MS/HSD sales while posting nearly +30%YoY growth in asphalt sales. Furthermore, with Attock Gen power plant still operating close to optimum level we expect APL to sustain its FO sales in FY19 as well with a gradual decline there onwards. To note, in FY18TD FO sales of APL remained flat at 0.51mnTon compared to 0.52mnMton in the same period last year.

Exhibit:
APL Volumes for 9MFY18

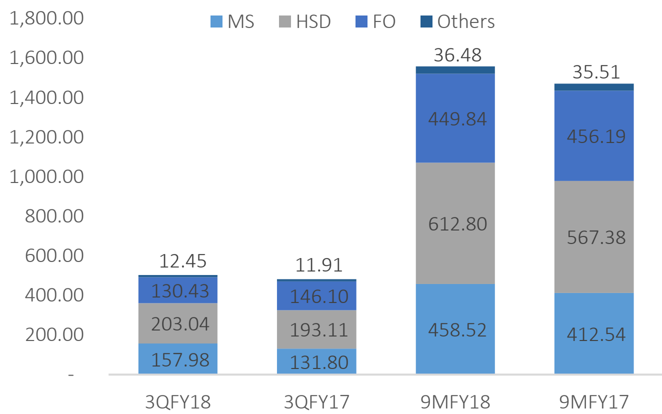
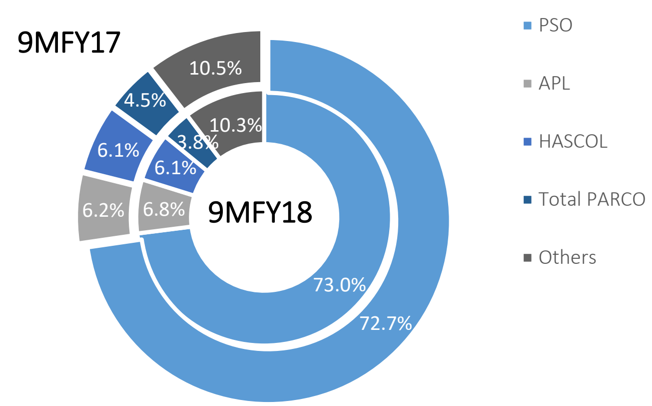


Exhibit:
APL has regained its market share in 9MFY18 for White oil products



Source: IGI Research, Company Accounts, OCAC

…led by expansion in storage capacity and retail outlets

APL has aggressively pursued expansion in to retail outlets with number of retail outlets increasing to 618 till Mar-18 compared to 563 in FY16. The company has increased its retail network by almost 40 outlets annually and by FY18 we expect retail outlet to reach 628 which in our view will further boost MS and HSD sales. APL has also expanded its storage capacity to smoothen the supply chain in order to fully utilize the growth in sale of POL products. Construction of storage terminals at Sahiwal, Tarujabba and Daulatpur is underway while the management is in the process of acquiring land to establish bulk oil terminals to enhance its storage capacity.

Award of contracts for supply of fuel to Pakistan Army

APL has been awarded contract for supply of fuel to Pakistan Army and has also been granted contract for provision of POL products to various locations of the Army for FY19. As a result, this would further boost sales of POL products for APL during FY19. Furthermore, the establishment of fuel farm at New Islamabad Airport, which has been completed and awaits formal approval from Civil Aviation Authority (CAA), has been completed which will strengthen jet fuel sales for APL.

Imposition of super tax and gradual reduction of corporate tax rate

The GoP has imposed super tax o f 3% which will gradually phase out by 1% by FY21 and reduction of 1% annually in corporate tax to reach 25% by FY23. As a result, our earnings estimate are revised downward by 4%/1% for FY18/FY19 however earnings are expected to accrete by +1%/+4%/+6% during FY20/21/22 owing to reduction of 1% in corporate tax rate.

Annual increase in OMC margin likely to be effective from Jul-18

According to news reports, Economic Coordination Committee (ECC) has approved increase in OMC margins for FY19 which will be effective from Jul-18. The increase in OMC margins as stated will be PKR 0.09/ltr for MS and PKR 0.23/ltr for HSD. To recall, GoP in 2016 approved annual increase in OMC margin in line with CPI inflation. As a result, the increased OMC margins would stand at PKR 2.64/ltr each for MS and HSD as HSD margin was not increased due to delays in deregulation. The accretion in margins alone would lead to incremental earnings impact of PKR 1.72/share for FY19.

Earning reported at PKR 17.52/share during 3QFY18, up by +21%YoY

Attock Petroleum Limited (APL) reported financial results for 3QFY18 with earnings clocking in at PKR 1.45bn (EPS PKR 17.52) as compared to PKR 1.20bn (EPS PKR 14.50) in the same period last year, up +21%YoY. We attribute this to a) +20%/+5%YoY rise in MS/HSD volumes, b) increased margins for MS of PKR 2.55/ltr compared to PKR 2.41/ltr in the same period last year and, c) inflated margins of asphalt due to surge in oil prices along with increase in sales due to higher demand amid rise in infrastructure development. Furthermore sales of MS and HSD posted above industry growth owing to addition of 7 new retail outlet during 3QFY18 to stand at 618.

This brings 9MFY18 earnings to PKR 4.26bn (EPS PKR 51.41) down by 2%YoY compared to PKR 4.36bn (EPS PKR 52.56) in the same period last year. The marginal decline is primarily attributable to reversal of provision of charges relating to Worker Welfare Fund. So far in 9MFY18 the Company has added nearly 18 new retail outlets. Total cash dividend for 9MFY18 stands at PKR 15.0/share.

Exhibit:

Financial Highlights

PKRmn	3QFY18	3QFY17	YoY	9MFY18	9MFY17	YoY
Net Sales	45,014	34,679	30%	121,359	96,174	26%
Gross Profit	2,471	1,808	37%	6,870	5,726	20%
S&D expense	669	506	32%	1,885	1,382	36%
Other Charges	106	86	24%	307	(377)	n/m
Other Op. Income	190	231	-18%	604	712	-15%
EBIT	1,993	1,532	30%	5,589	5,056	11%
Finance Cost	135	189	-29%	531	616	-14%
Profit Before Taxation	2,020	1,665	21%	5,913	6,146	-4%
Profit After Taxation	1,453	1,202	21%	4,264	4,359	-2%
EPS (PKR)	17.52	14.50		51.41	52.56	
DPS (PKR)	-	-		15.00	15.00	

Source: IGI Research, Company Financials *No of Shares: 82.94mn*

Target price slightly revised to PKR 740.3/share offering 20% upside; 'BUY' call maintained

We still maintain a 'BUY' call on APL with our revised Dec-18 target price of PKR 740.3/share offering 20% upside from last close. The Company is currently trading at FY18E/19F P/E of 9.3x/9.0x and offers the highest dividend yield of 7.3% among its peers.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 ,
Fax: (+92-21) 32429607

Lahore Office 5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II Tel: (+92-42) 35777863-70, 35876075-76 Fax: (+92-42) 35763542	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871653-6, 5871652 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-992) 408243 - 44	**Abbottabad Office** Ground Floor, Al Fatah Shoppinig Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44
Peshawar Office 2nd Floor, The Mall Tower, 35 The Mall Peshawar Cantt. Tel: (92-91) 5253035, 5278448	**Sialkot Office** Suite No. 10 & 11, 1st Floor, Soni Square, Mubarik Pura Tel: (+92-52) 3258437, 3258762

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009