Day Break

Friday, 05 October 2018

COMPANY UPDATE

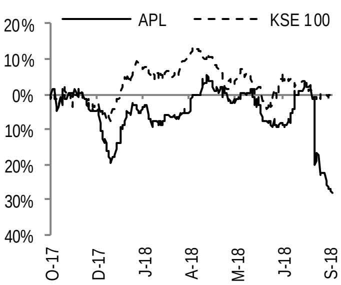
Attock Petroleum Limited
Oil & Gas Marketing Companies

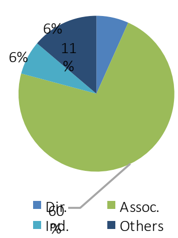
Recommendation			**BUY**
Target Price:			532.6
Last Closing:	4-Oct-18		427.4
Upside:			24.6
Valuation Methodology:	Discounted Cash Flow (DCF)		
Time Horizon:			Dec-18
Market Data			
Bloomberg Tkr.			APL PA
Shares (mn)			99.5
Free Float Shares (mn)			20.7
Free Float Shares (%)			20.8%
Market Cap (PKRbn | USDmn)		42.5	345.2
Exchange			KSE ALL
Price Info.	90D	06M	12M
Abs. Return	(24.4)	(27.2)	(28.3)
Lo	435.6	435.6	435.6
Hi	628.5	639.4	639.4

Key Company Financials
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	177.3	232.6	258.1	259.8
Net Income	5.7	5.7	6.2	6.3
EPS (PKR)	56.8	56.8	62.5	63.5
DPS (PKR)	40.0	43.0	51.0	54.0
Total Assets	38.4	46.1	52.2	54.5
Total Equity	18.4	19.9	21.1	22.0
Key Financial Ratios				
ROE (%)	30.7	28.4	29.5	28.7
P/E (x)	7.5	7.5	6.8	6.7
P/B (x)	13.8	2.3	2.1	2.0
DY (%)	9.4	10.1	11.9	12.6

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

Oil & Gas Marketing Companies

APL: Under the umbrella of debt free and no foreign currency exposure; Maintain 'BUY'

- We have slightly tweaked our earnings estimate for Attock Petroleum Limited (APL) after incorporating FY18 financial statements by +1%-3% for FY19-21F. We have also incorporated the recent rate hike of total 150bps and bonus of 20% announced in 4QFY18. As a result our bonus adjusted and revised Dec-18 target price comes at PKR 532.6/share down by nearly 11%,
- We foresee APL to post a 3yr CAGR of 4% in earnings from FY18-21F on the back of a) expansion in retail outlets and storage, b) FO volumes to take minimum dent owing to demand from Attock Refinery to utilize local crude, c) rise in oil prices and PKR depreciation to keep FO and Asphalt margins on the higher end along with likely inventory gains and, d) cash rich balance sheet with no debt to provide immunity as Monetary tightening continues,
- We still maintain a 'BUY' call on APL with our revised Dec-18 target price of PKR 532.6/share offering 25% upside from last close. The Company is currently trading at FY19F P/E of 7.5x and offers the highest dividend yield of 10.1% among its peers.

Earnings tweaked on FY18 result and changes in macroeconomic assumptions; 'BUY' call intact

We have slightly tweaked our earnings estimate for Attock Petroleum Limited (APL) after incorporating FY18 financial statements by +1%-3% for FY19-21F. We have also incorporated the recent rate hike of total 150bps and bonus of 20% announced in 4QFY18. As a result our bonus adjusted and revised Dec-18 target price comes at PKR 532.6/share down by nearly 11%. We maintain our BUY stance on the scrip offering an upside of 25% from last close and trading at FY19 P/E of 7.5x along with a dividend yield of 10.1%.

Earnings to accrete at 3yr CAGR of 4%

We foresee APL to post a 3yr CAGR of 4% in earnings from FY18-21F on the back of a) expansion in retail outlets and storage facility to keep retail segment growth healthy, b) FO volumes to take minimum dent owing to demand from Attock Refinery to utilize local crude, c) rise in oil prices and PKR depreciation to keep FO and Asphalt margins on the higher end along with likely inventory gains and, d) cash rich balance sheet with no debt to provide immunity as Monetary tightening continues.

Volumes likely to grow by +9%YoY in FY19…

We estimate APL's total volumes to grow by +9%YoY in FY19 on the back of +28%/+8%YoY growth in MS/HSD sales while posting nearly +18%YoY growth in asphalt sales. Furthermore, with Attock Gen power plant still operating close to optimum level we expect APL to post a decline of only 14%YoY in FY19 against 49%YoY drop in industry volumes. To note, in FY18 FO sales of APL remained flat at 0.64mnTon compared to 0.65mnMton in the same period last year, depicting drop of only 2%YoY compared to 24%YoY for industry.

…led by expansion in storage capacity and retail outlets

APL has aggressively pursued expansion in retail outlets with number of retail outlets increasing to 629 as at Jun-18 compared to 604 in FY17. The company has increased its retail network by an average of 40 outlets annually and by FY19 we expect retail outlet to cross 650 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 has acquired land to establish bulk oil terminals to enhance its storage capacity.

Exhibit:
APL Volumes for FY18

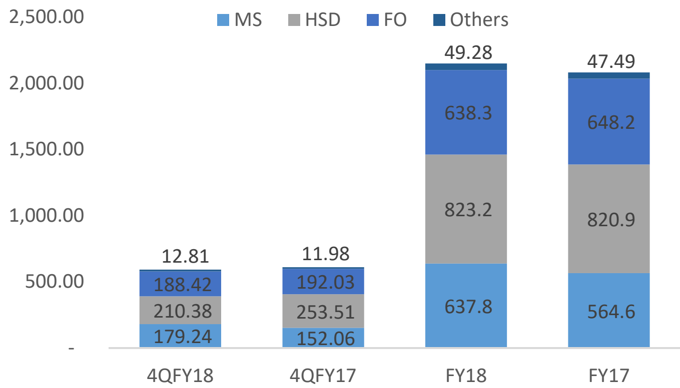
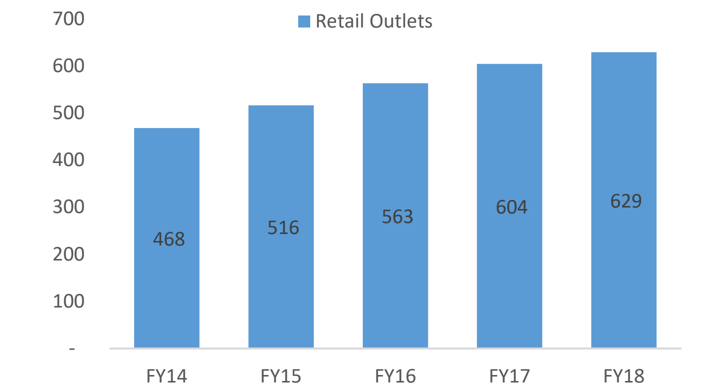


Exhibit:
APL has expanded retail outlets at an average of 40 outlets annually



Source: IGI Research, Company Accounts, OCAC

FO and Asphalt prices on the rise

FO prices have increased by nearly ~26% on average basis in FY18 on the back of PKR depreciation and rise in international oil prices. In 1QFY19, FO prices have further escalated and consequently margins average around PKR 2,297/ton compared to FY18 average of PKR 1,415/ton, up by +62%YoY. As a result, APL has benefited most as it only witnessed 2%YoY drop in sales in FY18 while margins escalated by +62%YoY. 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 PKR 17.9bn in FY18 compared to PKR 11.58bn in FY17; APL holds more than 70% market share in Asphalt segment, which is a higher margin product for OMCs.

Cash rich balance sheet with no debt pose no risk to earnings during monetary tightening cycle

APL currently holds cash of PKR 4.12bn or PKR 42.2/share as at Jun-18 with no long-term or short-term debt obligation. As a result, the Company earnings stand immune to rise in interest rate (150bps hike in last two months) and would not stand as a hurdle in the way of storage facility and retail outlet expansion. With a negative cash cycle of 2.4 days, APL working capital stands healthy compared to its peers. Furthermore, with no reliance on direct imports, Company also stands relatively immune to foreign exchange losses compared to HASCOL and PSO.

Exhibit:
Strong cash position with negative Cash cycle

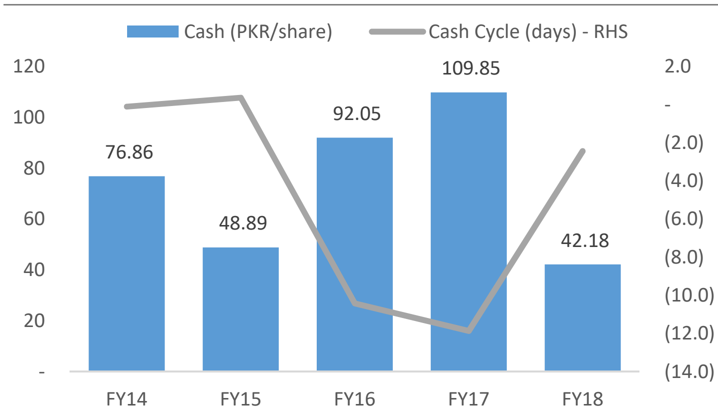
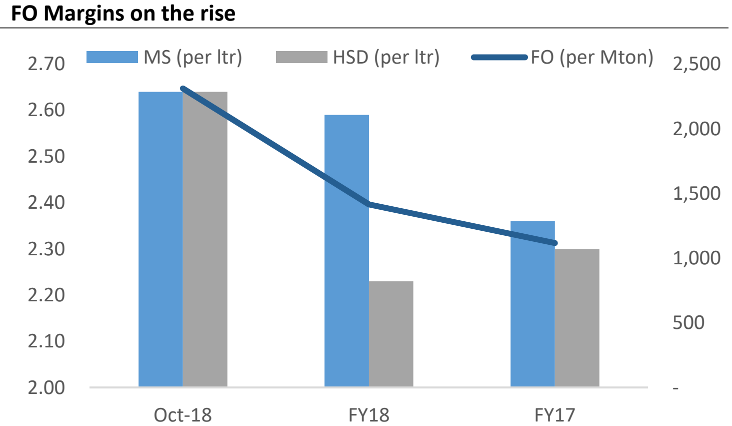


Exhibit:
FO Margins on the rise



Source: IGI Research, Company Accounts, OCAC

Earning reported at PKR 56.83/share during FY18, up by +7%YoY

APL reported financial results for 4QFY18 with earnings clocking in at PKR 1.39bn (EPS PKR 13.99) as compared to PKR 0.94bn (EPS PKR 9.44) in the same period last year, up +48%YoY. We attribute this to a) +18%YoY rise in MS volumes, b) increased margins for MS of PKR 2.55/ltr compared to PKR 2.41/ltr in the same period last year, c) inventory gains owing to rise in oil prices and, d) 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 posted above industry growth owing to addition of 10 new retail outlet during 4QFY18 to stand at 629. The company also announced bonus issue of 20% along with cash dividend of PKR 25.0/share.

This brings FY18 earnings to PKR 5.66bn (EPS PKR 56.83) up by +7%YoY compared to PKR 5.30bn (EPS PKR 53.24) in the same period last year. The marginal growth is primarily attributable to inventory gains due to rise in oil price and reversal of provision of charges relating to Worker Welfare Fund last year. Further the Company posted +13%YoY growth in MS sales led by addition of 25 new retail outlet. Total cash dividend for FY18 stands at PKR 40.0/share.

Exhibit:

Financial Highlights

PKRmn	4QFY18	4QFY17	YoY	FY18	FY17	YoY
Net Sales	55,985	42,487	32%	177,344	138,661	28%
Gross Profit	2,873	1,609	79%	9,743	7,335	33%
S&D expense	657	499	32%	2,543	1,881	35%
Other Charges / (income)	132	75	75%	439	(301)	-246%
Other Op. Income	280	201	40%	885	913	-3%
EBIT	2,496	1,311	90%	8,085	6,367	27%
Finance Income / (cost)	147	197	-25%	678	813	-17%
Profit Before Taxation	2,377	1,553	53%	8,289	7,699	8%
Taxation	984	613	60%	2,633	2,400	10%
Profit After Taxation	1,393	940	48%	5,656	5,299	7%
EPS (PKR) Bonus adjusted	13.99	9.44		56.83	53.24	
DPS (PKR)	25.00	27.50		40.00	42.50	

Target price slightly revised to PKR 532.6/share offering 25% upside; 'BUY' call maintained

We still maintain a 'BUY' call on APL with our revised Dec-18 target price of PKR 532.6/share offering 25% upside from last close. The Company is currently trading at FY19F P/E of 7.5x and offers the highest dividend yield of 10.1% among its peers.

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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.

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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
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
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@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 # 134, 3rd Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 ,
Fax: (+92-21) 32429607

Lahore Office
Shop # G-009, Ground Floor,
Packages Mall
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