

# Attock Petroleum Limited (APL): Expanding Footprint

September 14, 2021

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## Maintain 'BUY' with PT of PKR 421/share

- We revise our earnings estimates upward for Attock Petroleum Limited (APL) after incorporating latest FY21 financials. Our new EPS for FY22/23 now comes at PKR 54.0/57.0, compared to previous estimates of PKR 48.4/54.6 (up 11.6%/4.4%).
- Our rolled forward June-22 PT stands at PKR 421, offering an upside of 34%, along with a dividend yield of 9%.
- We expect recovery in HSD and MS volumetric sales and increase in market share will provide impetus to the earnings going forward.
- Furthermore, FO sales to remain intact over our investment horizon primarily due to higher demand from the power sector.
- OMCs margins are expected to increase in 2HFY22, in line with national CPI, which will also support earnings growth.
- Additionally, APL's incremental storage capacities and new retail outlets are also expected to help meet the growing demand of POL products.
- We reiterate 'BUY' on APL. The stock is trading at FY22 PE and PBV of 5.8x and 1.2x, respectively.

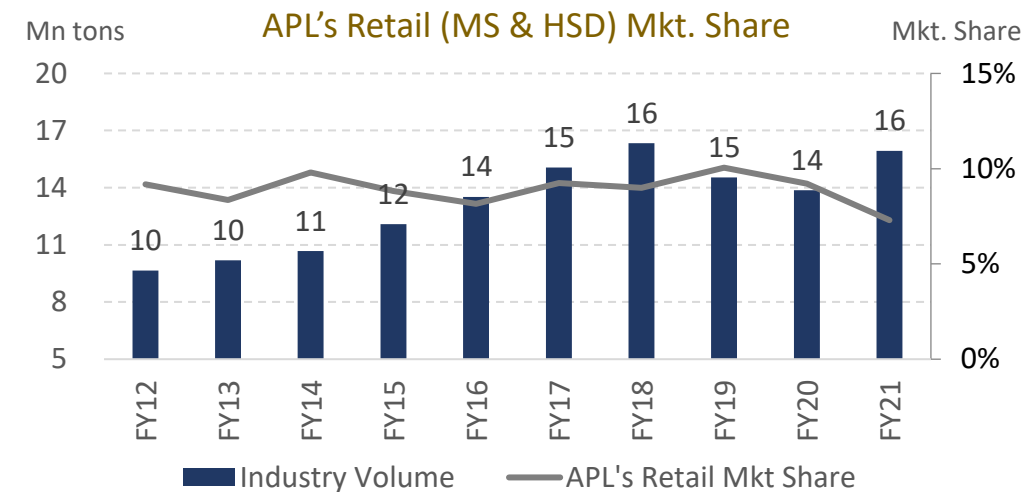
Key Data	
Bloomberg Ticker	<b>APL:PA</b>
Reuters Ticker	<b>APL:KA</b>
PSX Ticker	<b>APL</b>
Target Price (PKR)	421
Current Price (PKR)	314
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	9%
Total Return (%)	+ 43%
12-month High (PKR)	390
12-month Low (PKR)	304
Outstanding Shares (mn)	99.53
Market Cap (PKR mn)	31,261
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	39.8	10.1	49.4	54.0	57.0	61.1
EPS Growth	-30%	-75%	387.9%	9.3%	5.6%	7.2%
DPS	20.0	9.0	27.0	27.0	31.0	34.0
PER	7.9	NA	6.4	5.8	5.5	5.1
Div. Yield	6.4%	2.9%	8.6%	8.6%	9.9%	10.8%
EV/EBITDA	2.5	4.2	1.5	1.1	1.0	0.9
P/B	1.7	1.7	1.4	1.2	1.1	1.0
ROE	21.2%	5.4%	23.9%	22.3%	21.3%	20.7%

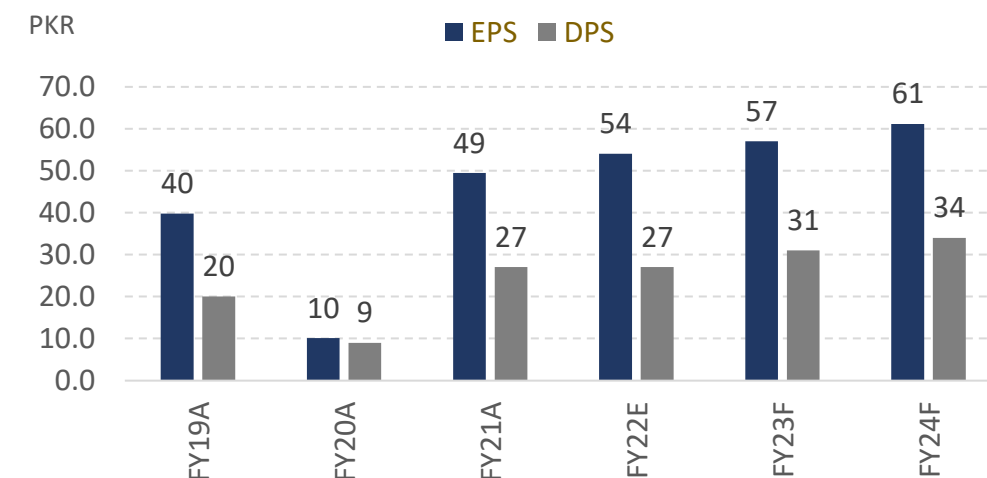
## Recovery in volumetric sales to support bottom-line

### ■ Earnings revised up by 11.6%/4.4%

- We have revised upward our earnings estimates for APL owing to significant recovery in the volumetric sales post pandemic related lockdowns.
- APL’s overall volumetric growth remained flat at 0.3% during FY21, despite increase in FO sales by 32% YoY. The dismal performance mainly came from 12% YoY and 6% YoY decline in HSD and MS sales respectively. Furthermore, APL lost its retail (HSD & MS) market share by around 1.9% during the year due to new entrants in the market.
- We expect APL to post strong rebound in its HSD & MS sales during FY22 and will witness volumetric growth of 17% YoY and 16% YoY, respectively. We believe that consistent recovery in the economic activity, uptick in demand in automobile sector, increase in the company’s storage capacity and positive GDP growth will result in higher volumes.
- Furthermore, we have assumed FO sales to remain flat for next 3 years at 0.5mn tons per annum as demand from the power sector will remain intact. Earlier, we had assumed annual decline in FO volumes due to the government strategy to phase out FO based power generation.
- Resultantly, our FY22/23 earnings are expected to clock in at PKR 54.0/57.0, respectively compared to our earlier estimates of PKR 48.4/54.6 correspondingly, (up 11.6%/4.4%).



Source: Akseer Research



Source: Company Accounts & Akseer Research

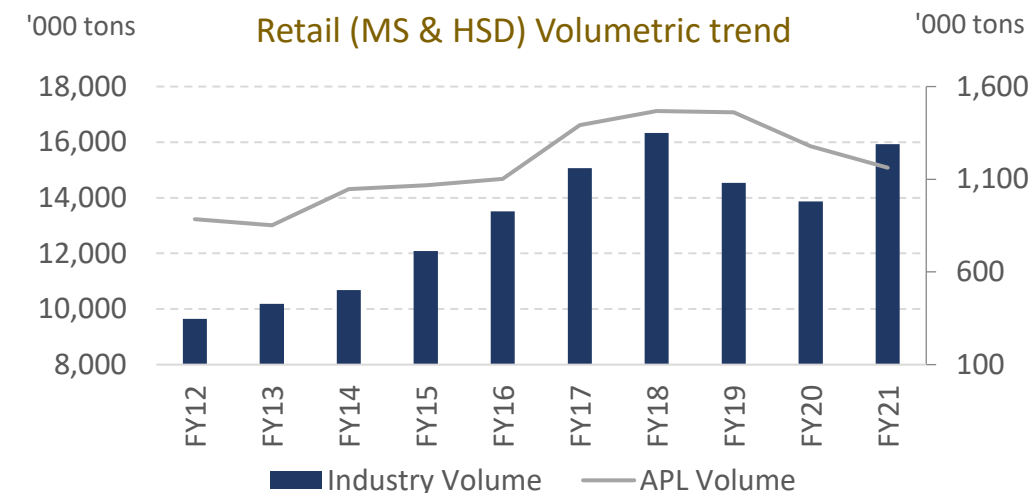
## Ongoing expansion coupled with CPI based margins accretions will keep earnings upbeat

### ■ Additional storage/ retail capacities to help cater growing demand

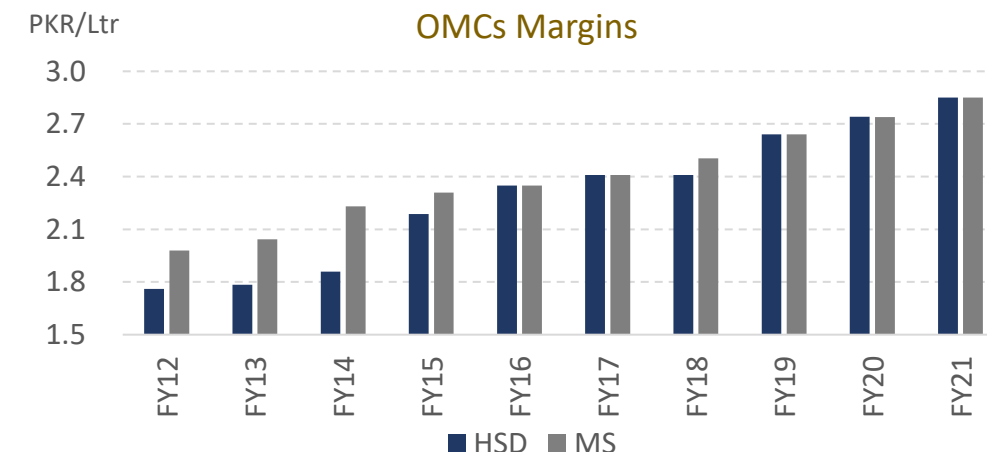
- APL has recently completed construction of Bulk Oil Terminal, having total capacity of 39,481, at Port Qasim, adding ~26% to its total storage capacity. The terminal was successfully commissioned at the end of FY21. This strategic storage will help in efficiently managing the imports, which will then be transported to mid country through white oil pipeline.
- Moreover, APL has added 175 new retail outlets during the last 5 years taking the total to 738 operational retail outlets across the country. We expect the retail network growth momentum to continue.
- Besides, APL also plans to develop strategic storage capacities in Faisalabad and Peshawar. With ongoing expansion in storage facilities and retail outlets, we believe that APL will be adequately equipped to cater growing demand in line with economic growth going forward.

### ■ OMCs margins to grow at 8% CAGR

- OMCs' margins are linked with national CPI and as per formula they are expected to increase annually in line with CPI surge. We expect OMCs margins to grow at a CAGR of 8% in next 5 years further supporting net earnings growth.



Source: Company Accounts & Akseer Research



Source: Company Accounts & Akseer Research



## Risk - Return Profile

### Valuation Basis

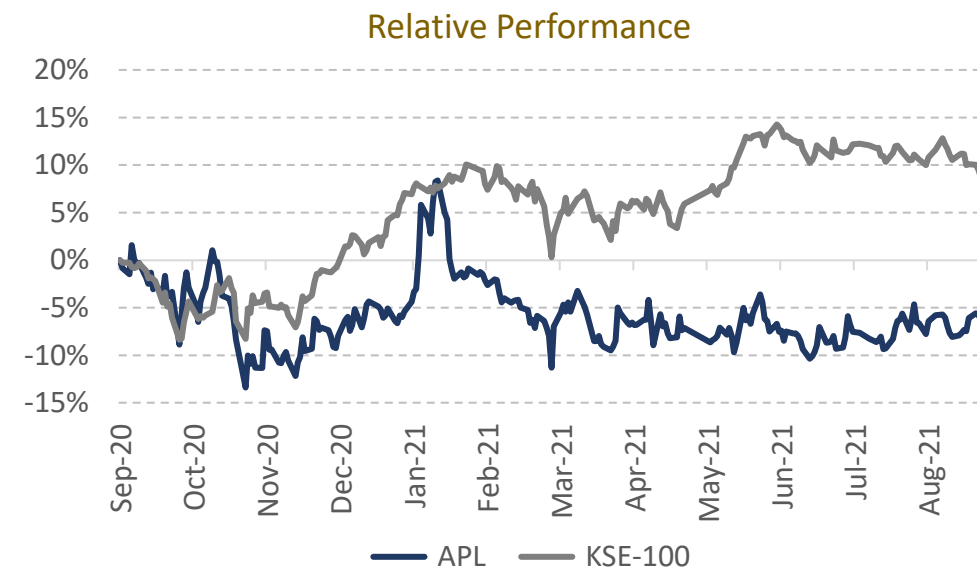
- Our PT for Attock Petroleum Limited (APL) has been computed using the free cash flow to equity (FCFE) method. We have used a risk-free rate of 11%, a beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 17%.

### Investment Thesis

- Our investment case on APL is based on:
  - Improving Market share on the back of growing storage and retail network,
  - Cash-rich balance sheet, and
  - Group synergies to augment earnings.

### Risks

- Key risks to our investment thesis are
  - Sharp decrease in oil prices,
  - Significant loss of market share to other industry players,
  - Decline in OMC volumes due to economic slowdown, and
  - Delay in margin revision,
  - Influx of smuggled POL products.



Source: PSX & Akseer Research

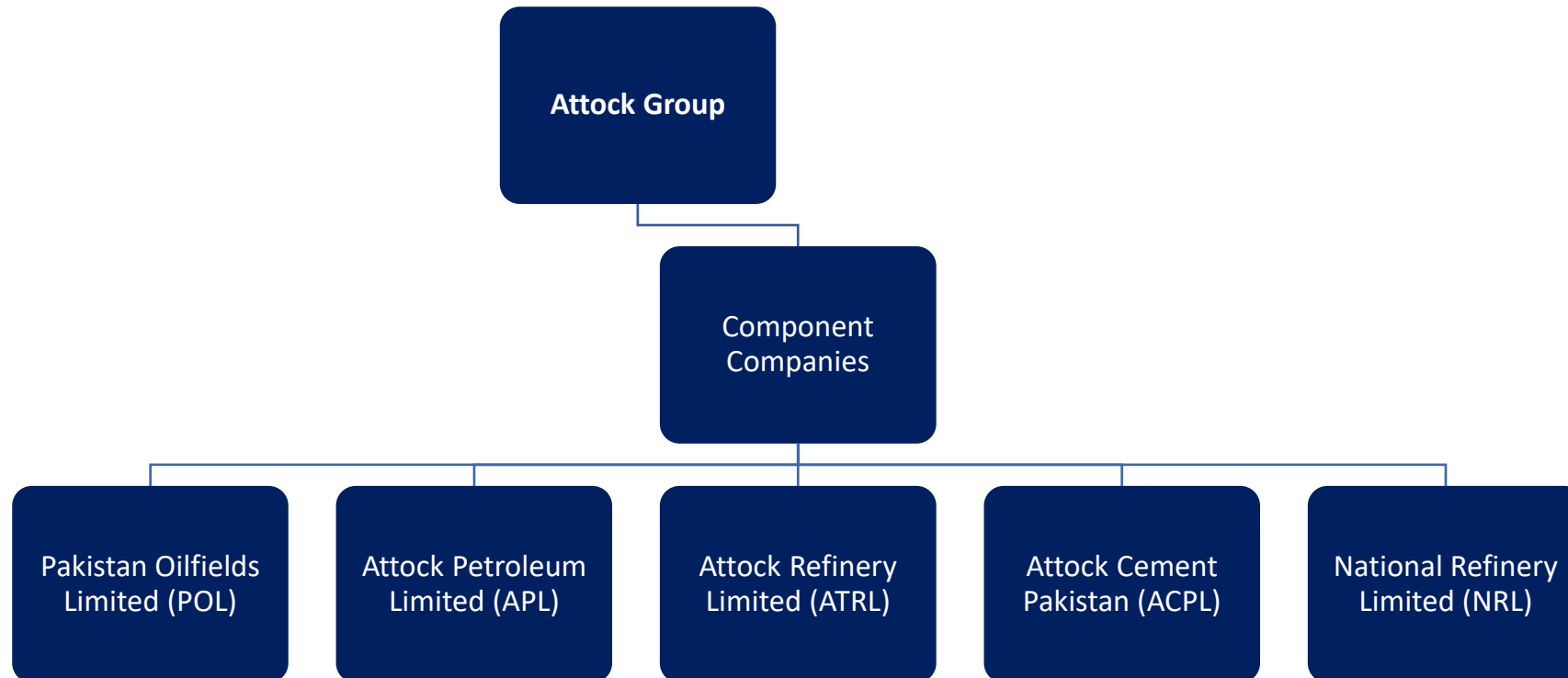
Comparative Ratios (FY21)	APL	PSO	SHEL*
EPS	49.4	62.1	22.1
DPS	27.0	15.0	-
Dividend yield	8.6%	7.0%	-
Gross margin	5.3%	4.5%	8.2%
Net Margin	2.6%	2.4%	2.0%
PER	6.4	3.4	6.58
PBV	1.3	0.8	2.40

Source: Company Accounts & Akseer Research

\* Annualized

## Company Overview

- Attock Petroleum Limited (APL) was incorporated in 1995 and is based in Rawalpindi, Pakistan. It procures, stores, and markets petroleum and related products in Pakistan. It offers various petroleum products, such as high-speed diesel, premier motor gasoline, jet fuels, etc. APL markets and supplies fuels to retail outlets, industries, armed forces, power producers, government/semi-government entities, developmental sector and agricultural customers.
- **Group Structure**



## Financial Highlights

Income Statement (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Gross sales	256,661	235,732	221,334	252,637	259,599	266,748
Rebates/discounts	33,607	34,653	32,688	37,896	38,940	40,012
<b>Net sales</b>	<b>223,054</b>	<b>201,079</b>	<b>188,645</b>	<b>214,742</b>	<b>220,659</b>	<b>226,736</b>
Cost of Sales	214,833	197,441	178,663	203,472	208,419	213,420
<b>Gross profit</b>	<b>8,221</b>	<b>3,638</b>	<b>9,982</b>	<b>11,269</b>	<b>12,241</b>	<b>13,316</b>
Operating expenses	3,590	3,079	4,152	4,740	5,319	5,841
<b>Operating profit</b>	<b>4,560</b>	<b>185</b>	<b>6,239</b>	<b>6,918</b>	<b>7,291</b>	<b>7,825</b>
Other income	1,148	899	1,261	1,290	1,321	1,353
Finance income	1,399	2,232	1,334	1,308	1,311	1,342
Financial Charges	849	1,597	1,419	1,696	1,780	1,907
Other charges	313	118	509	391	407	431
Net Other income/(charges)	835	781	752	899	914	922
<b>EBIT</b>	<b>6,794</b>	<b>3,198</b>	<b>8,324</b>	<b>9,125</b>	<b>9,516</b>	<b>10,090</b>
<b>Profit Before Tax</b>	<b>5,723</b>	<b>1,503</b>	<b>6,939</b>	<b>7,464</b>	<b>7,773</b>	<b>8,222</b>
Taxation	1,762	495	2,019	2,088	2,097	2,136
<b>Profit After Tax</b>	<b>3,961</b>	<b>1,008</b>	<b>4,920</b>	<b>5,377</b>	<b>5,676</b>	<b>6,086</b>
<b>Ratios</b>						
EPS	39.8	10.1	49.4	54.0	57.0	61.1
DPS	20.0	9.0	27.0	27.0	31.0	34.0
Payout Ratio	50%	89%	55%	50%	54%	56%

Source: Company Accounts & Akseer Research

## Financial Highlights

Balance Sheet (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Trade debts	16,838	13,970	11,025	12,550	12,896	13,251
Other working capital assets	17,345	18,074	23,076	25,758	26,137	26,573
Cash	2,920	3,482	10,110	9,488	10,084	10,952
<b>Current assets</b>	<b>37,103</b>	<b>35,526</b>	<b>44,211</b>	<b>47,797</b>	<b>49,118</b>	<b>50,777</b>
Fixed Assets	8,349	13,840	16,617	20,118	22,258	24,181
Long term Investments	904	808	842	885	929	975
Other non current assets	47	1,065	228	228	228	228
<b>Total assets</b>	<b>46,403</b>	<b>51,238</b>	<b>61,898</b>	<b>69,026</b>	<b>72,532</b>	<b>76,161</b>
Creditors	3,474	2,162	7,212	8,213	8,413	8,615
Due to related party	17,234	16,114	16,324	18,590	19,042	19,499
Other liabilities	5,975	9,632	8,260	9,406	9,643	9,884
<b>Current liabilities</b>	<b>26,683</b>	<b>27,909</b>	<b>31,795</b>	<b>36,209</b>	<b>37,098</b>	<b>37,998</b>
Deferred liabilities	77	130	258	258	258	258
Other liabilities	716	4,753	7,124	7,149	7,176	7,203
<b>Total liabilities</b>	<b>27,476</b>	<b>32,792</b>	<b>39,177</b>	<b>43,616</b>	<b>44,531</b>	<b>45,458</b>
Unappropriated profit	17,712	17,231	21,506	24,195	26,786	29,487
Shareholders' equity	18,927	18,446	22,721	25,410	28,001	30,703
<b>Total equity and liabilities</b>	<b>46,403</b>	<b>51,238</b>	<b>61,898</b>	<b>69,026</b>	<b>72,532</b>	<b>76,161</b>
<b>Ratios</b>						
BVPS	190.2	185.3	228.3	255.3	281.3	308.5
ROCE	9.8%	4.2%	10.3%	9.9%	9.7%	9.9%
ROA	8.6%	2.1%	8.7%	8.2%	8.0%	8.2%
ROE	21.2%	5.4%	23.9%	22.3%	21.3%	20.7%

Source: Company Accounts & Akseer Research



## Financial Highlights

Cashflow Statement (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	3,961	1,008	4,920	5,377	5,676	6,086
Depreciation	592	1,173	1,627	1,962	2,264	2,481
Working capital	(352)	3,365	1,829	207	163	109
<b>CFO</b>	<b>4,423</b>	<b>5,644</b>	<b>8,342</b>	<b>7,510</b>	<b>8,066</b>	<b>8,637</b>
Fixed Capital Expenditure	(2,523)	(6,664)	(4,404)	(5,463)	(4,404)	(4,404)
Chg in Long term investments	11	(1)	(1)	(7)	(7)	(8)
Chg in other Long term assets	380	(1,018)	837	-	-	-
<b>CFI</b>	<b>(2,131)</b>	<b>(7,683)</b>	<b>(3,568)</b>	<b>(5,470)</b>	<b>(4,411)</b>	<b>(4,412)</b>
Dividends Paid	(1,991)	(896)	(2,687)	(2,687)	(3,086)	(3,384)
Adjustment in Equity	(1,461)	(593)	2,043	-	-	-
Other Adjustments	(119)	4,091	2,498	25	26	27
<b>CFF</b>	<b>(3,570)</b>	<b>2,602</b>	<b>1,853</b>	<b>(2,662)</b>	<b>(3,059)</b>	<b>(3,357)</b>
Net Change in Cash	(1,278)	562	6,628	(621)	596	868
Beginning Cash	4,198	2,920	3,482	10,110	9,488	10,084
<b>Ending Cash</b>	<b>2,920</b>	<b>3,482</b>	<b>10,110</b>	<b>9,488</b>	<b>10,084</b>	<b>10,952</b>

Source: Company Accounts & Akseer Research

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