

PAKISTAN

Attock Petroleum Limited

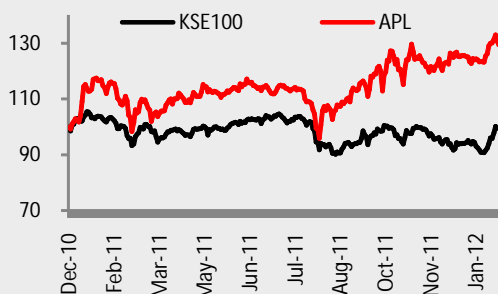
26 January 2012

APL PA		Outperform
Stock price as of 25 Jan	Rs	433.0
June 12 target	Rs	486.3
Upside/downside	%	12.3%
Valuation	Rs	486.3
- Discounted cashflow		
Oil marketing		
Market cap	Rs bn	29.9
30-day avg turnover	US\$m	1.0
Market cap	US\$m	348
Number shares on issue	m	69.1

Investment fundamentals

Year end 30 Jun		2010A	2011A	2012E	2013E
Total revenue	m	82,792	109,395	128,322	139,415
EBIT	m	5,166	6,700	6,536	6,955
EBIT Growth	%	20.7	29.7	(2.5)	6.4
Recurring Profit	m	3,594	4,257	4,290	4,780
Reported Profit	m	3,594	4,257	4,290	4,780
EPS metrics					
EPS rep	Rs	52.0	61.6	62.1	69.2
EPS rep growth	%	16.6	18.4	0.8	11.4
EPS rec	Rs	52.0	61.6	62.1	69.2
EPS rec growth	%	16.6	18.4	0.8	11.4
PE metrics					
PE rep	x	8.3	7.0	7.0	6.3
PE rec	x	8.3	7.0	7.0	6.3
DPS and Yield					
Total DPS	Rs	25.00	41.50	40.34	44.95
Total div yield	%	5.8	9.6	9.3	10.4
ROA and ROE					
ROA	%	15.5	15.7	15.8	14.1
ROE	%	44.1	41.0	34.9	34.4
EV/EBITDA and Debt					
EV/EBITDA	x	3.7	3.5	3.3	2.9
Net debt/equity	x	(100.4)	(45.2)	(53.7)	(55.2)
Price/book	x	3.2	2.6	2.3	2.0

APL PK rel KSE100 performance



Source: Bloomberg, Foundation Research, January 2012
(all figures in PKR unless noted)

Analyst

Hassan Raza
92 21 5612290-94 Ext 311 hasan.raza@fs.com.pk

Bumper result in the offing

Event

- Attock Petroleum Limited (APL) will announce its results for 2QFY12 on 2nd February, where we expect the company to announce net profit of PKR1,191mn (EPS PKR 17.23, up 37.2% YoY), operating profit of PKR1,785mn (up 52.0%), and net sales of PKR36,254mn (up 65.2%). We expect the company to announce cash dividend of PKR12/share for this quarter.

Impact

- QoQ decline in volumetric sales but 15.5%YoY growth:** Although volumetric sales during 2QFY12 have grown by handsome 15.5% YoY on the bank of reasonable growth in FO, HSD and Mogas, but QoQ have witnessed a slight decline of 1.2%, being the second consecutive quarter where sales have plunged, albeit at slow pace. QoQ decline in sales was partly due to dwindling export sales which eventually came to halt by end of Nov'11 and also due to sizeable contraction of overall industry volumes in Dec'11.
- Higher product prices propelling the top line:** Net sale of the company is expected to post strong growth of 65.5% YoY, from 21,944mn in 2QFY11 to PKR34,876mn in 2QFY12, on the back of moderate growth in volumetric sales and due to higher POL prices during the quarter. Average quarterly prices of various products increased by 24.1%-41.1% during this quarter with FO witnessing the highest price spike.
- Higher marketing margins coupled with huge inventory gains to bolster gross profit:** Gross profit of the company is expected to surge by massive 58.9% during 2QFY12 due to 1) impact of higher margins during the 2nd quarter after margins on HSD and Mogas were revised upwards in phased manner beginning from Sept'11, and 2) robust inventory gains primarily on the back of mounting HSD and FO prices during the period. We expect the company to book inventory gains of approximately PKR230mn, propping up the bottom line by PKR2.4/share.
- Other operating income to rise steadily but return on bank balance/ST investments to contract marginally:** Other operating income of APL, comprising late payment charges from Attock Gen and commission on exports of naphtha, is expected to grow by 27.3% during the period owing to higher penal income from Attock Gen as receivables from the thermal plant mount up. While income on cash and bank balances is expected to diminish because of lower bank balance and declining interest rates.

Earnings Revision

- No change

Price catalyst

- June-12 price target: PKR486.3 based on a discounted cash flow methodology.

Action and recommendation

- 12.3% upside to our current target price of PKR486.3:** The stock trades at attractive FY12 PE and PB multiples of 7.0x and 2.3x respectively. We maintain our 'Outperform' rating for the stock.

Fig 1 2QFY12E results

(PKR mn)	2QFY11	2QFY12E	YoY
Gross sales	25,594	42,555	66.3%
Net sales	21,944	36,254	65.2%
Cost of sales	21,076	34,876	65.5%
Gross profit	867	1,379	58.9%
Other operating income	456	580	27.3%
Operating expenses	149	174	16.7%
Operating profit	1,174	1,785	52.0%
Financial charges	164	272	66.1%
Income on bank deposits and ST investments	251	235	-6.6%
Share of profit os associate companies	27	24	-9.5%
Other charges	88	140	59.7%
PBT	1,200	1,631	35.9%
Taxation	332	440	32.7%
PAT	868	1,191	37.2%
EPS	12.6	17.2	37.2%
DPS	11.5	12.0	4.3%

Source: Company accounts, FS Research, Jan 12

About The Company

APL was incorporated on December 3, 1995. It commenced its operations in February 1998, after it was granted the marketing license. APL was listed on Karachi Stock Exchange on March 07, 2005. The company's sponsors include Pharaon Commercial Investment Group Limited (PCIGL) and Attock Group of Companies. Pharaon Group is engaged internationally in diversified entrepreneurial activities. The Attock Group of Companies is the only fully vertically integrated group covering all aspects of the oil and gas sectors of Pakistan, ranging from exploration, production, refining to marketing of a wide range of petroleum products. Today APL is ranked as the 3rd largest OMC of Pakistan, overtaking Chevron Pakistan Limited, in terms of aggregate Petroleum Oil & Lubricants (POL) sales and aggregate market share.