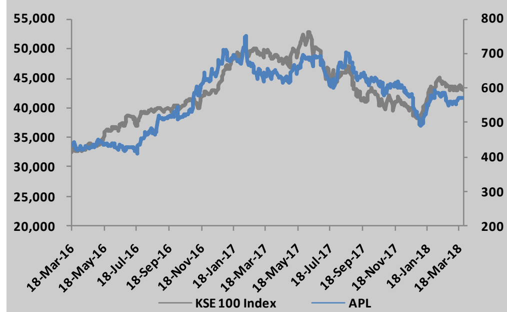
Attock Petroleum Limited (APL)

REP-091
March 27, 2018

KATS Symbol	**APL**
Reuters Symbol	**APL.KA**
Target Price	Rs721
LDCP	Rs581.69
Outstanding Shares (mn)	82.94
Free Float (mn)	20.74
Market Cap (mn Rs)	48,245

Price Performance Against KSE100 Index



Source: PSX

	FY17A	FY18E	FY19E
EPS (Rs)	63.89	59.31	62.36
P/E (x)	9.10	9.81	9.33
DPS (Rs)	42.50	45.00	50.00
D/Y (%)	7.31%	7.74%	8.60%

Source: Co Financials, AS Research

- ***Attock Petroleum's management has undertaken aggressive measures to address its supply chain related bottlenecks through storage expansions and increase in its retail footprint. We believe these measures will help the company strengthen its supply chain and in turn gain cost advantage.***
- ***In collaboration with PSO, the company is setting up a fuel farm with storage capacity of 11,000 MT at the new Islamabad airport which will enhance jet fuel sales considerably in the upcoming quarters***
- ***Ongoing construction of transport infrastructure including highways will keep demand for higher margin products i.e. Asphalt ad Bitumen upbeat***
- ***Company's stock price is currently trading at FY18E and FY19E P/E of 9.81x and 9.33x respectively. We have a BUY call on Attock Petroleum with a DCF based Dec 18 target price of Rs 721 which offers an expected upside of 24% from LDCP and an expected dividend yield of 7.7%***

11% decline in 1HFY18 profitability due to a one off reversal in previous year APL posted 1HFY18 profit after tax of Rs2.8bn translating into EPS of Rs33.88 as compared to EPS of Rs 38.06 (Ex-WWF reversal EPS Rs29/share) in SPLY; this decline is primarily due to a one off reversal of provision for other charges relating to Workers Welfare Fund (WWF) in previous year. Although revenue grew by 24%, majority of this growth was driven by price increase with partial contribution of around 9% from increase in sales volumes.

New storage facilities and retail outlets to help Attock Petroleum improve supply chain and consequently enhance market share Attock Petroleum has embarked on an aggressive journey of building bulk oil terminals and storage infrastructure at multiple strategic locations to gain freight advantages and improve operational efficiency. As per the company, construction of Oil Terminals in Shikarpur and Mehmood Kot is in final stages and is expected to be completed in 4QFY18, while construction of terminals at Sahiwal, Tarujabba and Daulatpur are still in progress.
In terms of retail outlets, the company is continuously maintaining its expansion in retail footprint through opening of 11 retail outlets on average/quarter. As at 31st of December 2017, Attock petroleum retail footprint includes 611 outlets. Through its retail outlets company intends to establish customer engagement through offering of non-fuel products and services.

Fuel Farm – another boost to Jet fuel sales In collaboration with PSO, Attock Petroleum is venturing into a new business segment of Aviation fuels through establishing a fuel farm at the New Islamabad International Airport. This farm will initially have a capacity of 11,000 MT which will in future be enhanced to 20,000 MT. We foresee this venture to considerably add to jet fuel sales of Attock Petroleum in the coming quarters. Our valuation includes impact of this venture.

Decline in FO sales have limited impact on bottom line Attock Petroleum primarily provides Furnace Oil to Attock Gen Limited (33% of total FO revenue) which is on top of the FO based producers list under the NEPRA merit order. Current contribution of FO to the profitability of Attock Petroleum is ~Rs 5/share. We do not expect any significant decline in this contribution given the reason mentioned above.

Benefits of transport infrastructure will continue to add to margins Attock Petroleum's strong strategic relationship with the defense sector has continued to enable it to become part of various CPEC transport infrastructure related projects for supply of Bitumen. This includes projects such as CPEC's PKM-Project (Peshawar Karachi Motorway).
We believe higher allocation in PSDP and CPEC related projects will continue to keep the demand for bitumen and asphalt upbeat. Attock Petroleum will continue to enjoy higher market

Research Department
021-111-555-275
research@abbasisecurities.com

share in this category along with higher margins on these products.

Valuation

APL is currently trading at FY18E and FY19E P/E of 9.8x and 9.3x respectively. We have BUY stance with DCF based Dec'18 target price of Rs721/-, providing 24% upside from LDCP and a dividend yield of around 7.7%.

Key Risks:

- Decline in petroleum demand due to higher prices
- Higher inventory losses
- Delay in increase in petroleum margins
- Adverse PKR movement

Research Department
021-111-555-275
research@abbasisecurities.com

Disclaimer

Disclaimer: This document is prepared for information purposes only. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. This document does not take account of the investment and trading objectives, financial situation and particular needs of clients, who should seek further professional advice or rely upon their own judgment and acumen before making any investment / trading decision.

Analyst Certification

The author (s) of this report hereby certifies(y) that this report accurately reflects his/their own independent opinions and views as of the time this report went into publication and that no part of his/their compensation was, is or will be affected by the recommendation(s) in this report. The research analyst or any of his/their close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or their close relatives 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. The Research analyst or his/their close relatives have not traded in the subject security in the past 7 days and will not trade for 5 days post publication of the report.

Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

· Comparable Method (P/E, P/B etc.)

· Discounted Cash flow Method

·Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price

ABBASI SECURITIES

Contact us:
Email: research@abbasisecurities.com
Website: www.abbasisecurities.com
Telephone: 111-555-275

Jama Punji
سرمایہ کاری سمجھداری کے ساتھ

Disclaimer: This document is prepared for information purposes only. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. This document does not take account of the investment and trading objectives, financial situation and particular needs of clients, who should seek further professional advice or rely upon their own judgment and acumen before making any investment / trading decision