

Attock Petroleum Limited (APL)

Investment Case

Target Price	467.90
Stance	BUY

Key Stats

KATS Code	APL
Bloomberg Code	APL PA
Reuters Code	APL.KA
O/S shares (mn)	99.5
Market Cap (PKR'mn)	31,360
Market Cap (US\$'mn)	199.7
Avg Daily Vol (000)	63.9
Free Float	25.0%
Current Price	315.1
Target Price	467.9
Upside to TP	48.5%
52-week range (PKR)	390.0-207.0
Rating	BUY

52-week Performance



Performance (%)	1M	3M	12M
Absolute	-9.7	-3.2	-7.8
Relative	-0.3	-4.0	-20.1

Hasnain Murtaza

hasnain.murtaza@fortunesecurities.com
(+92 21) 35309119

Fortune Securities Limited

Head Office

3rd Floor, Razi Tower, BC-13,
Block No. 9, KDA Scheme No. 5
Clifton, Karachi
Phone: (92 21) 35309101-09
Fax: (92 21)35309155

From a rocky road to a smooth terrain!

We initiate coverage on **Attock Petroleum Limited (APL)** with a **BUY** stance based on our Dec'21 **SOTP Target Price** of **PKR 467.90/share**. This translates into a **total stock return (TSR)** of **58.5%**; capital upside of 48.5% from last day closing price (LDCP) and an attractive dividend yield of 10%. Aggressive retail expansion propelled by planned commissioning of storage facilities provides a solid foundation for APL to capture a bigger slice of the retail fuels pie. Revival of macroeconomic activities in a post-COVID19 world will result in increased demand from industrial space (cement sector expansions, opening of SEZs and construction amnesty scheme) which bodes well for transportation activity, and in this regard APL stands primed to take advantage owing to its already impressive highway network (c. 53% of outlets are on highways & motorways).

APL has always enjoyed lower forex and inventory losses relative to its peers based on its group synergies. These cost-savings will ensure lower working capital requirements to partake on the journey of adding 253 pumps during FY21-25, ultimately helping to improve market share (7.23% in 1HFY21 to 9.25% by FY23). Subsequently, improved volumetric sales when combined with strong retail sales/pump ratio will drive bottom-line profitability translating into a forward PE of 7.47/8.10/6.88x for FY21/22/23 offering DPS of PKR 25/27/34 over the same timeframe. Our analysis is further underpinned by following features:

- ✦ **Flourishing automobile sales:** Approx. 95% of Motor Spirit (MS) and 80-85% of High-Speed Diesel (HSD) demand emanates from automobile sector which is enjoying a purple patch lately
- ✦ **Revision in OMC margins:** OMC margins have been under deliberations by authorities over a year and the recent increase will translate into an increase in earnings (Annualized after tax EPS impact of PKR 2.96 for FY22)
- ✦ **Favorable pricing mechanism:** Fortnightly pricing policy will help safeguard from inventory losses going forward after its exposure to volatility is increased with additional storage capacities
- ✦ **Securing government contracts:** HSD sales and Bitumen sales are boosted in times of industrial activity boom with GoP also taking part by disbursing resources to concerned authorities. APL being a market leader of Bitumen will not be left behind in this growth journey
- ✦ **Strong CF generation ensuring healthy payouts:** Higher proportion of sales mix towards retail fuels will result in an exceptional cash conversion cycle

Key Risks: Major risks include: i) inventory losses, 2) delayed project commissioning, iii) lower than expected sales, and 4) uncondusive policies

Financials	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Retail outlets	662	702	750	790	850	905
Avg. Oil prices	70	53	51	60	60	60
Net Sales (PKRmn)	223,054	201,079	197,747	258,301	291,372	323,909
Gross margin %	3.69%	1.81%	4.67%	3.53%	3.62%	3.70%
PAT (PKRmn)	3,961	1,008	4,198	3,870	4,561	5,074
EPS (PKR)	39.79	10.13	42.18	38.89	45.82	50.98
DPS (PKR)	20.00	9.00	25.00	27.00	34.00	41.00
Dividend yield %	4.51%	2.96%	7.93%	8.57%	10.79%	13.01%
BVPS (x)	190.16	185.33	211.51	228.40	243.72	257.70
PE (x)	11.15	29.99	7.47	8.10	6.88	6.18
ROE (%)	21.21%	5.40%	21.26%	17.68%	19.41%	20.33%

Source: Company Accounts, Fortune Research