

# APL

**A scrip with attractive dividend yield, offering a total return of 51%**

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We initiate our coverage on Attock Petroleum Limited (APL) with a DCF based Dec-22 TP of Rs.400 which provides an upside potential of 34.7%. Further, the scrip also provides a dividend yield of 16.5% which makes the total return of 51%

The capital of the Company is entirely structured on equity finance. It means that the company has sufficient borrowing capacity and is adequately geared to meet its future commitments and development plans

Net margin has been improved to 4.3% in 1HFY22 as compared to 2.4% during SPLY as inventory gains played a vital role

Going forward, we expect the company's revenues to grow at a 5-year CAGR of 13% to Rs348bn by FY26 amid ease in lockdowns and upcoming expansion of the economy.

## Company Overview

Attock Petroleum Limited was incorporated in Pakistan as a Public Limited Company on December 03, 1995. The Company was listed on Pakistan Stock Exchange (formerly known as Karachi Stock Exchange) on March 07, 2005. APL is the 3rd largest Oil Marketing Company in Pakistan and its market share for the financial year 2020-21 was 9.4%. APL markets and supplies fuels to retail outlets, industries, armed forces, power producers, government/semi-government entities, developmental sector and agricultural customers etc. As of June 30, 2021, the Company operated the Retail Network of 738 pumps countrywide.

## Substantial Growth in Net Sales

APL has announced its 1HFY22 result where it posted a profit after tax of Rs6.609bn (EPS: Rs66.4) as compared to profit after tax of Rs2.146bn (EPS: Rs22.56) in the same period last year, up by 207% YoY. The company has posted a revenue of Rs154.227bn against Rs89.970bn in SPLY, recording a growth of 71.5% YoY. Furthermore, the net margin has been improved to 4.3% in 1HFY22 as compared to 2.4% during SPLY. Going forward, we expect the company's revenues to grow at a 5-year CAGR of 13% to Rs348bn by FY26 amid ease in lockdowns and upcoming expansion of the economy.

## Growth in Automobile Sector

New entrants in the automobile sector amplified customers' purchasing power, resulting in automobile growth during the period of FY21. Furthermore, the Pakistani Auto market in 2021 rises by 89.8% with 242,886 units. Meanwhile, the number of units sold till Dec-21 has already reached 114,765. These factors played a significant role in the substantial upsurge in demand for white oil and this growth is expected to continue and will play a vital role in the substantial growth of APL Sales.

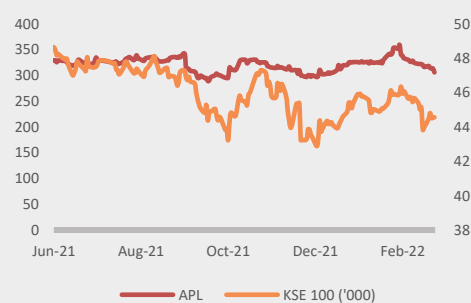
## Debt Obligations and Circular Debt

Circular debt has become a major issue in the country right now. However, there are no such issues related to circular debt in APL, unlike in the case of PSO. Furthermore, the capital of the Company is entirely structured on equity finance. The management is of the view that the capital structure is appropriate for the foreseeable future. The Company has sufficient borrowing capacity and is adequately geared to meet its future commitments and development plans.

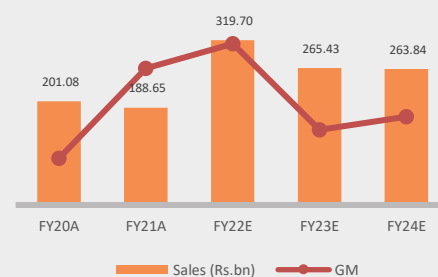
## Key Statistics

Symbol	APL
TP - Dec 22	400.00
LDPC	298.00
Upside (%)	34.70
Free Float ('mn)	25
Market Cap. (Rs.'mn)	29,645

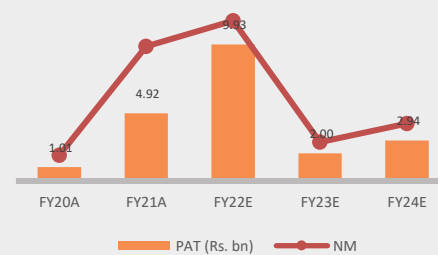
## APL vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials, PSX.

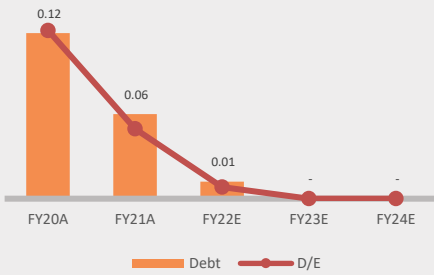
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## Key Statistics

Debt (Rs'bn) vs D/E



## Valuation

APL is currently trading at FY22E P/E of 2.99x. Furthermore, the scrip is also trading at FY22A P/B of 1.07x which offers a discount of 30% relative to its historical 3-year average of 1.53x. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs.400 which provides an upside potential of 34.7%. Further, the scrip also provides a dividend yield of 16.5% which makes the total return of 51%.

## Key Risks to Valuation

- Unexpected inventory gains and losses
- Less than expected growth in demand

Sources: ACPL Research, Company Financials.

## Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	223,054	201,079	188,645	319,700	265,433	263,839	304,224
Cost of sales	-214,833	-197,441	-178,663	-299,717	-257,702	-254,801	-293,426
<b>Gross profit</b>	<b>8,221</b>	<b>3,638</b>	<b>9,982</b>	<b>19,984</b>	<b>7,731</b>	<b>9,038</b>	<b>10,798</b>
Other Income	1,148	899	1,261	1,630	1,354	1,346	1,552
Net impairment losses on financial assets	-71	-374	409	639	531	528	608
Operating expenses	-3,590	-3,079	-4,152	-6,714	-5,574	-5,541	-6,389
<b>Profit from operations</b>	<b>5,708</b>	<b>1,084</b>	<b>7,500</b>	<b>15,540</b>	<b>4,042</b>	<b>5,371</b>	<b>6,569</b>
Finance income	1,399	2,232	1,334	1,439	1,194	1,187	1,369
Finance Cost	-849	-1,597	-1,419	-1,487	-1,234	-1,227	-1,415
Share of profit of associates - net of tax	-222	-97	34	5	4	4	5
Other Charges	-313	-118	-509	-1,407	-1,168	-1,161	-1,339
<b>Profit before income tax</b>	<b>5,723</b>	<b>1,503</b>	<b>6,939</b>	<b>14,090</b>	<b>2,838</b>	<b>4,175</b>	<b>5,190</b>
Income tax expense	-1,762	-495	-2,019	-4,157	-837	-1,232	-1,531
<b>Profit for the year</b>	<b>3,961</b>	<b>1,008</b>	<b>4,920</b>	<b>9,933</b>	<b>2,001</b>	<b>2,943</b>	<b>3,659</b>
<b>EPS</b>	<b>39.79</b>	<b>10.13</b>	<b>49.43</b>	<b>99.80</b>	<b>20.10</b>	<b>29.57</b>	<b>36.76</b>
<b>EBITDA</b>	<b>6,300</b>	<b>1,768</b>	<b>8,399</b>	<b>16,599</b>	<b>5,247</b>	<b>6,708</b>	<b>8,026</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY23E	FY23E
Revenue	25.9%	-9.9%	-6.2%	69.5%	-17.0%	-0.6%	15.3%
Cost of sales	28.3%	-8.1%	-9.5%	67.8%	-14.0%	-1.1%	15.2%
<b>Gross profit</b>	<b>-15.6%</b>	<b>-55.7%</b>	<b>174.4%</b>	<b>100.2%</b>	<b>-61.3%</b>	<b>16.9%</b>	<b>19.5%</b>
Other Income	29.8%	-21.8%	40.3%	29.3%	-17.0%	-0.6%	15.3%
Net impairment losses on financial assets	3564.5%	428.2%	-209.4%	56.3%	-17.0%	-0.6%	15.3%
Operating expenses	41.3%	-14.2%	34.9%	61.7%	-17.0%	-0.6%	15.3%
<b>Profit from operations</b>	<b>-29.4%</b>	<b>-81.0%</b>	<b>592.0%</b>	<b>107.2%</b>	<b>-74.0%</b>	<b>32.9%</b>	<b>22.3%</b>
Finance income	12.7%	59.5%	-40.2%	7.9%	-17.0%	-0.6%	15.3%
Finance Cost	50.4%	88.1%	-11.2%	4.8%	-17.0%	-0.6%	15.3%
Share of profit of associates - net of tax	551.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Charges	-28.7%	-62.4%	331.5%	176.5%	-17.0%	-0.6%	15.3%
<b>Profit before income tax</b>	<b>-31.0%</b>	<b>-73.7%</b>	<b>361.7%</b>	<b>103.1%</b>	<b>-79.9%</b>	<b>47.1%</b>	<b>24.3%</b>
Income tax expense	-33.1%	-71.9%	308.1%	105.8%	-79.9%	47.1%	24.3%
<b>Profit for the year</b>	<b>-30.0%</b>	<b>-74.5%</b>	<b>387.9%</b>	<b>101.9%</b>	<b>-79.9%</b>	<b>47.1%</b>	<b>24.3%</b>
<b>EPS</b>	<b>-30.0%</b>	<b>-74.5%</b>	<b>387.9%</b>	<b>101.9%</b>	<b>-79.9%</b>	<b>47.1%</b>	<b>24.3%</b>
<b>EBITDA</b>	<b>-25.9%</b>	<b>-71.9%</b>	<b>375.1%</b>	<b>97.6%</b>	<b>-68.4%</b>	<b>27.8%</b>	<b>19.6%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	3.69	1.81	5.29	6.25	2.91	3.43	3.55
NP Margin	%	1.78	0.50	2.61	3.11	0.75	1.12	1.20
OP Margin	%	2.56	0.54	3.98	4.86	1.52	2.04	2.16
ROE	%	20.93	5.47	21.65	35.88	7.04	9.97	11.85
ROCE	%	28.95	4.65	24.91	67.69	16.11	19.24	22.33
ROA	%	8.54	1.97	7.95	13.13	2.84	4.05	4.52
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.39	1.28	1.39	1.21	1.26	1.29	1.26
Quick	x	0.79	0.81	0.56	0.50	0.52	0.56	0.55
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY23E	FY23E
Inventory Turnover	x	16.97	17.68	13.97	13.89	10.25	11.02	11.86
Inventory Days		21.51	20.64	26.14	26.28	35.62	33.12	30.77
Receivables Days		27.55	25.36	21.33	21.33	23.00	25.00	25.00
Payables Days		45.25	50.95	63.70	63.70	63.70	63.70	63.70
Operating Cycle		3.82	-4.95	-16.23	-16.08	-5.08	-5.58	-7.93
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
DPS		20.00	9.00	27.00	50.00	12.50	18.50	23.00
Div. Yield	%	6.25	3.02	9.06	16.78	4.19	6.21	7.72
Dividend Cover	x	1.99	1.13	1.83	2.00	1.61	1.60	1.60
Retention	%	49.74	11.16	45.37	50.00	37.18	37.18	37.18
Payout	%	50.26	88.84	54.63	50.00	62.82	62.82	62.82
No. of Shares	('m)	0.10	0.10	0.10	0.10	0.10	0.10	0.10
EPS		39.79	10.13	49.43	99.80	20.10	29.57	36.76
BVPS		190.16	185.33	228.28	278.18	285.65	296.64	310.31
P/E	x	8.04	29.42	6.03	2.99	14.82	10.08	8.11
Sales per share		2241	2020	1895	3212	2667	2651	3057
P/BV	x	1.68	1.61	1.31	1.07	1.04	1.00	0.96
P/S	x	0.14	0.15	0.16	0.09	0.11	0.11	0.10
Solvency Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.00	0.22	0.28	0.32	0.40	0.47	0.53
L.T Debt to Equity	x	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	6.72	0.68	5.29	10.45	3.27	4.38	4.64

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

**VALUATION METHODOLOGY**

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

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