Attock Petroleum Limited (APL)

RATINGS (NOVEMBER 2004)

Attock Petroleum Limited

Entity *	
Long Term	AA
Short Term	A1+

**Applicable to senior unsecured creditors*

Financial Data

PKR (mln)

	30-Jun-04	30-Jun-03
Total Assets	1,333.7	937.7
Equity	552.7	379.1
Operating profit	366.0	220.4
Net Income	335.8	169.5
ROA (%)	29.56	19.12
ROE (%)	72.07	49.14
EBIDTA	556.5	311.5
Total Debt / Equity (%)	n.a	n.a

ANALYSTS

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Rating Rationale

Assessment

- The ratings reflect APL's very strong financial profile emanating from its debt free capital structure, outstanding performance and robust liquidity. While margins could decline owing to increasing competition, the adverse impact is expected to be mitigated through volume expansion. The company is, therefore, well placed to withstand competitive pressures. The ratings also factor in the benefits accruing to the company from its association with the only fully integrated group in the petroleum sector of the country.
- During FY04, the performance of the company – as measured by ROE – showed a significant improvement despite an increase in the equity base. This improvement is mainly on account of the favourable shift in sales composition and higher output prices. Moreover, non-core income – storage, handling and transportation – showed strong growth, which augmented the bottom line. Going forward, pump sales of white oils – a relatively high margin product - are expected to increase mainly due to planned expansion in retail outlet network. With increasing focus on lubes, CNG sales and expansion of existing storage facilities and setting up new storage depots in the country and abroad, the company is expected to improve its profitability. The company is exploring opportunities to start operations in Afghanistan and has recently acquired an oil marketing licence for initiating retail business.
- The association of APL, the fourth OMC of the country, with the Attock group has resulted in access to assured and cost effective supply. Although there could be some competitive pressure on margins with anticipated further deregulation, the management also considers it as an opportunity for ensuring efficient procurement of products. Meanwhile, deregulated products contribute over three fourth of the current revenues, providing APL the capacity to compete in the changing regulatory regime. Moreover, in the event of entry of new OMCs, the company is better placed by virtue of its already developed market standing.
- The management is considering expansion of its scope of activities. Currently, this effort is directed towards setting up a storage facility at Port Qasim to cater to import and export of petroleum products. Plans are also underway to explore benefits of directly importing petroleum products especially HSD and PMG – currently procured from local refineries and some other OMCs – thus directly affecting related profit margins. Furthermore, APL is a part of a consortium in setting up a 150MW power plant locally. Once the power project is operational, the fuel requirements of the power plant would provide an additional revenue stream to APL. Recently, the group has shown interest in acquiring majority shareholding of National Refinery Limited (NRL), a major refining complex with a competitive edge in Lube Base Oil (LBO). If successful, while ensuring additional source of supply this would also help APL in expanding its product range.
- APL's debt free capital structure and strong cash flows considerably mitigate the financial risk. Going forward, the company intends to fund the capital expenditure and investment plans from internal resources. The low risk financial profile is, therefore, likely to be maintained.

Support

- While there is no contractual obligation on the part of Attock Group to support APL in the event of a contingency, in PACRA's opinion, such support is likely to be forthcoming, should it prove necessary.

Background

- Attock Petroleum Limited (APL), incorporated in 1995 and sponsored by Attock Group, commenced operations in February 1998. The group is engaged internationally in diversified activities, which include hotels, oil exploration, production and refining, chemicals, cement and real estate sector. In Pakistan, the Attock Group has considerable representation in the petroleum sector through its exploration companies – Attock Oil Company Limited and Pakistan Oilfields Limited – and a refinery – Attock Refinery Limited – in addition to the oil marketing company.
- APL is engaged in retail marketing (84 outlets), industrial supply and export of different POL products. APL, with concentration in Punjab and NWFP and currently holds around 3% of local market share. The company intends to expand its participation gradually through increasing its geographical outreach.