

## Attock Refinery Limited (ARL)

### RATINGS (JUNE 2006)

Attock Refinery Limited

| Entity     | New | Previous |
|------------|-----|----------|
| Long Term  | AA- | AA-      |
| Short Term | A1+ | A1+      |

### Financial Data

| PKR (mln)               | 31-03-06* | 30-06-05 |
|-------------------------|-----------|----------|
| Total Assets            | 27,551.2  | 18,367.8 |
| Equity                  | 4,549.5   | 4,649.3  |
| Net Income (Loss)       | (99.8)    | 1,222.6  |
| Gross Margin            | 0.11      | 6.11     |
| ROA (%)                 | n.a       | 7.96     |
| ROE (%)                 | n.a       | 29.85    |
| EBIDTA                  | 713.7     | 2,632.4  |
| Total Debt / Equity (%) | 99.95     | 0.65     |

\* Based on 9-months figures

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### Rating Rationale

#### Assessment

- The ratings reflect the company's very strong capital structure and robust cash flows that enable ARL to remain largely insulated from the cyclicity of refining industry. Meanwhile, the strengthening equity base due to mandatory retention of profits above 50% of paid-up capital would continue to provide significant cushion against any future unforeseen events. The ratings also factor in the benefits emanating from the company's association with the only fully integrated group in the petroleum sector of the country.
- In recent years, ARL has increased its focus on the production and subsequently sales of some high value products like HSD and jet fuel. Jet fuel is consumed both locally and is also being exported through the group's oil marketing company. The demand of motor gasoline is shrinking mainly due to its continuing high prices and consequential consumer shift to compressed natural gas (CNG). Although the company has reduced the production of motor gasoline, the relatively higher freight on the export of low value by-product – naphtha – due to location disadvantage is resulting in squeeze in margins. The company, meanwhile, also supplies the relatively high margin low sulfur furnace oil - an exclusive product – to a captive client and since recently also to WAPDA.
- Overall, FY05 was an auspicious year for refineries engaged primarily in fuel refining, reflective in across-the-board improvement in gross margins and profitability. The performance of ARL, as measured by ROE, also showed a significant improvement despite substantial increase in the average equity base owing to improved profits on the basis of higher sales and enhanced gross margins. The volumes also increased due to debottlenecking of processing units with more than nameplate capacity utilization during the year. The increase in margins could not continue into FY06 primarily due to unfavourable spread between crude and product prices, incremental loss on export of naphtha and also largely range bound behaviour of international oil prices, restricting inventory gains. Nonetheless, these margins are expected to improve – already showing signs of recovery – due to continuing upturn in the refining industry and the management is also taking certain marketing initiatives to cope with the changing dynamics of the domestic market. Meanwhile, an increase in financial charges relating to debt obtained for the acquisition also depressed the bottom line.
- The company is planning to increase the quantum of motor gasoline export, which would ease pressure on naphtha exports hence margins. Attock Group (AG) has acquired management control and majority shareholding (51%) of National Refinery Limited (NRL) in which ARL has almost 50% share – PKR 8bln. While this would provide cash inflow in the shape of dividends, the company also retains sufficient cash balance, which with effective treasury management is also generating significant interest income. The management is considering expansion of core refining capacity. This increase would cater to the expected crude discoveries in the north region. In addition, the management is considering options for diversification of operations. Currently this effort is directed towards initiating a white oil pipeline project. The project, a joint venture between AG and Pakistan State Oil (PSO), in which ARL would have significant shareholding. Moreover, the company is planning to setup a 150 MW power plant for sale of electricity to third parties. It would be managed by a separate company that has already been established. These projects are expected to provide additional income stream to the company. However, the quantum of contribution and the timing thereof remains to be seen.
- While the increase in financial leverage owing to debt acquisition for strategic investments has been substantial, the corresponding increase in cash flows allows the company to maintain gearing and respective coverages at an adequate level. The total funding requirement for the expansion and diversification plans is around PKR 6bln. The company plans to initiate these projects in phases and financing plan envisages a combination of internal generation and debt.

### Background

- Attock Oil Company Limited (AOC), incorporated in UK and a pioneer in oil refining in South Asia, started refining operations in Pakistan in 1922, at Morgah, near Rawalpindi with a 2,500 BPD facility. ARL was incorporated as a private limited company in 1978 to take over the crude oil refining business from AOC. ARL was then converted into public limited company in 1979 and is now listed with all the three stock exchanges of the country and currently has refining capacity of 40,000 BPD.
- ARL is sponsored by the Attock Group in which the principal financial stake is of the Saudi Pharaon Group. The Pharaon Group is engaged internationally in diversified activities, which includes hotels, oil exploration, production and refining, chemicals, cement and real estate sector. In Pakistan, Attock Group has considerable representation in the petroleum sector through its exploration companies – Attock Oil Company Limited (AOC) and Pakistan Oilfields Limited (POL) – and an oil marketing company – Attock Petroleum Limited (APL) – and the newly acquired NRL.