

FUEL OIL DISTRIBUTION COMPANIES OF BANGLADESH

Overview

The Government has ensured control over the Country's petroleum sector through Bangladesh Petroleum Corporation (BPC). BPC runs its operation with the help of total seven subsidiary companies. Among these, three are oil distribution companies, one is petroleum refinery company, two are lubricant blending companies and one is LP Gas bottling company. The three oil companies are Padma Oil Company Ltd. (PADMAOIL), Meghna Petroleum Ltd. (MPETROLEUM), Jamuna Oil Company Ltd. (JAMUNAOIL).

Operating Procedure: The oil distribution companies collect refined petroleum through pipe lines in their respective main installation from Eastern Refinery Ltd. Some refined products are imported directly. Then they disseminate petroleum products to all over the country through their distribution networks.

Product Basket: Padma oil offers relatively more products compared to the other twos. Products like Jet A-1 fuel and Light Diesel Oil (LDO) are only offered by Padma oil. Other products they offer are similar for all the three companies. HSD (Diesel), HOBC (Octane), MS (Petrol), FO (Furnace Oil), SKO (Kerosene) etc. are considered as major products and Lubricants, LPG, Bitumen etc. as minor products. Contribution of the major products to the net earnings of the companies as of 2017-18 is shown below:

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
HOBC (Octane)	5.6%	3.0%	2.0%
Jet A-1	33.8%	0.0%	0.0%
MS (Petrol)	8.3%	8.5%	3.4%
HSD (Diesel)	36.4%	47.3%	60.5%
FO (Furnace Oil)	5.7%	15.0%	16.9%

Snapshot on Fuel Oil Distribution Companies:

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Established	27-04-1965	27-12-1977	12-03-1975
Capacity (MT)	254,248	215,275	184,794
% of BPC's Total Storage	21.18%	17.93%	15.40%
Market Share	34.05%	35.51%	26.40%
Major Contributor	HSD (36.4%)	HSD (47.3%)	HSD (60.5%)
Listing Year	1976	2007	2008

- **Revenue:** Revenues from core operation of these companies are generated from fixed margin determined by the Government, on the basis of quantity sold. They have no control over fixing the product price.
- **Interest income:** Interest income from FDR plays vital role for these companies. Hence, fluctuation in bank deposit rate is an important consideration.
- **Market Share:** Meghna Petroleum Ltd. is the market leader among the three companies holding 35.51% market share on the basis of product sold as of June 2018 (Source: Padma Oil Annual Report 2017-18).
- **Storage Capacity:** As per BPC data, PADMAOIL has the highest storage capacity among three oil Distribution companies followed by MPETROLEUM and JAMUNAOIL. These oil distribution companies have 54.51% of the BPC's total oil storage capacity.

Comparative Snapshot:

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Relative Position (As on 06-03-2019):			
Current Price	BDT 240.6	BDT 218.2	BDT 187.9
52 Weeks Price Range	BDT 213.5 - 259.8	BDT 174.9 - 244.0	BDT 175.0 - 209.0
3 Months Avg. Turnover	BDT 7.5 mn	BDT 5.0 mn	BDT 2.3mn
3 Months Return	8.7%	16.4%	7.7%
EPS (6m Ann)	BDT 28.7	BDT 31.3	BDT 26.0
DPS (C/B)%	130/-	140/-	130/-
NAVPS	BDT 141.1	BDT 128.8	BDT 184.5
P/E	8.4	7.0	7.2
P/B	1.7	1.7	1.0

Basic Information:

Assets(Dec'18)	BDT 178 bn	BDT 101 bn	BDT 61 bn
FDR (Dec '18)	BDT 28 bn	BDT 27 bn	BDT 18 bn
Equity(Dec'18)	BDT 14 bn	BDT 14 bn	BDT 20 bn
Market Cap	BDT bn	BDT bn	BDT bn
Market Weight	0.7%	0.7%	0.6%
No. of Shares	98.23 mn	108.22 mn	110.42 mn
Free Float	49.65%	41.33%	39.92%

Financial Information (2017-18):

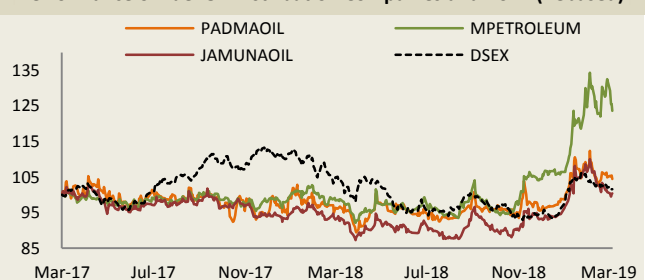
Earnings from Petroleum Products	BDT 3.0 bn	BDT 2.4 bn	BDT 1.3 bn
Operating Profit	BDT 1.5 bn	BDT 1.5 bn	BDT 0.6 bn
Non-Operating Income	BDT 3.2 bn	BDT 3.4 bn	BDT 3.3 bn
Net Profit After Tax	BDT 3.4 bn	BDT 3.6 bn	BDT 2.8 bn

Profitability:

Operating Profit Margin*	56.8%	72.3%	58.8%
Net Profit Margin*	111.4%	149.6%	209.6%
ROA	2.1%	4.0%	4.9%
ROE	29.7%	32.5%	15.1%

* Operating Profit Margin = Operating Profit/Earnings on Petroleum Products and Net Profit Margin = Net Profit/ Earnings on Petroleum Products

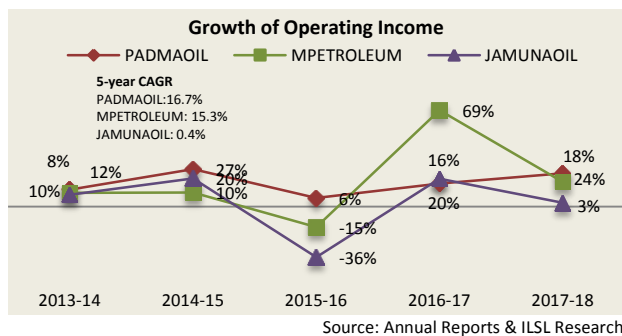
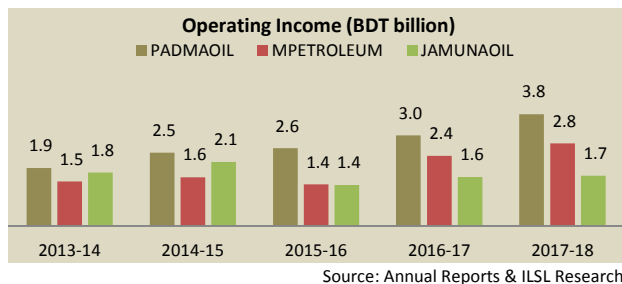
Performance of Fuel Oil Distribution Companies and DSEX (Rebased)



Source: DSE & ILSL Research

Comparison of Operating Income:

Operating income of these companies is generated from core operation i.e., distribution of petroleum products. Apart from core operations, these oil companies are involved in some other activities as well. Padma oil has business in agro chemical products as well as earns operating profit by providing services to Eastern Lubricants and Blenders Ltd., Private Power Stations and BPC. Operating income of Meghna Petroleum Ltd. is entirely dependent on its core operation i.e., distribution of petroleum products. On the other hand, Jamuna oil receives commission and service charges from products handling services, Tanker operation and other services. **All three companies are primarily engaged in distribution of petroleum products and operating on commission basis.**



During the last five years, Operating income of all three companies increased steadily over last three years with the steady economic growth. In 2015-16, the sale of petroleum products of JAMUNAOIL decreased due to increase of electricity production and enhancement of electricity network, allowing private power plants to import FO at their own arrangements and price cut of Octane by Government.

Non-Operating Income:

Non-Operating income plays a vital role for these oil distribution companies. Substantial amount of FDR investment generates sizeable non-operating income. AS of 2017-18, 'cash & cash equivalent' holding of these companies are as follows –

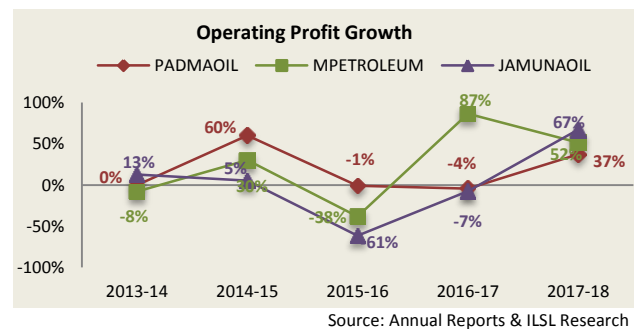
Particulars (BDT million)	PADMAOIL	MPETROLEUM	JAMUNAOIL
Cash & Cash Equivalents	31,167	29,898	16,980
% of Total Assets	18.4%	29.7%	29.9%
Total Assets	169,830	100,824	56,821
Operating Income	3,754	2,768	1,681
Non-Op. Income	3,226	3,388	3,285
% of Operating Income	85.9%	122.4%	195.4%

Since oil distribution companies generate a substantial amount of income from FDR interest, therefore, interest rate of banks

on deposit is a vital issue for these companies. The up and downward trends have the considerable impact on the bottom line. **Of the three companies, JAMUNAOIL has the highest volatility over the deposit rate movement as it has the highest contribution of non-operating income to its bottom line.** Non-operating income of JAMUNAOIL includes dividend income and rental income.

Profitability Condition:

The income of these companies is generally termed as 'margin' which is determined by the Government on sale of petroleum products. The companies deduct operating expenses i.e. administrative, selling and distribution expenses and finance expenses from operating income to derive operating profit.



Some other indicators used to depict the profitability scenario of these companies:

Operating Profit/Net Earnings on Petroleum Products

Particulars	2014-15	2015-16	2016-17	2017-18
PADMAOIL	72.7%	69.8%	51.0%	56.8%
MPETROLEUM	60.9%	44.1%	53.9%	72.3%
JAMUNAOIL	76.3%	58.5%	38.0%	58.8%

Source: Annual Reports & ILSL Research

Operating profit margin of PADMAOIL and JAMUNAOIL has dropped to 57% & 59% respectively in 2017-18 which was 73% & 76% respectively in 2014-15 due to the increase in administrative, selling and distribution expenses. However, MPETROLEUM was able to increase the operating profit margin in the period.

Net Profit/Net Earnings on Petroleum Products

Particulars	2014-15	2015-16	2016-17	2017-18
PADMAOIL	106.5%	100.2%	83.0%	111.4%
MPETROLEUM	124.4%	132.5%	102.9%	149.6%
JAMUNAOIL	130.0%	224.7%	180.6%	209.6%

Source: Annual Reports & ILSL Research

JAMUNAOIL has the highest net profit margin over the other two due to the higher non-operating income.

Particulars	2014-15	2015-16	2016-17	2017-18
ROA				
PADMAOIL	2.1%	1.8%	1.6%	2.1%
MPETROLEUM	3.8%	2.9%	2.9%	4.0%
JAMUNAOIL	6.1%	4.1%	4.0%	4.9%
ROE				
PADMAOIL	24.8%	21.6%	21.0%	29.7%
MPETROLEUM	27.1%	22.0%	23.5%	32.5%
JAMUNAOIL	16.7%	12.7%	13.1%	15.1%

Source: Annual Reports & ILSL Research

JAMUNAOIL has the highest ROA than the other two due to the higher non-operating income in relating to its total assets. On the other hand, MPETROLEUM posted highest return for its shareholders due to the lower denominator compared to the other two.

Latest Quarter (July-December, 2018) Disclosures:

Half yearly performance comparison, over the same period of last year, of these companies is presented below –

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Financial Information (in BDT mn):			
Net Earnings on Petroleum Product	1,314	1,160	743
Operating Profit	470	562	269
Non-Op. Income	1,525	1,841	1,713
Net Profit After Tax	1,408	1,691	1,435
Total Assets	177,763	101,295	60,670
Cash & Cash Equivalents	28,470	27,257	17,783
Growth:			
Net Earnings on Petroleum Product	0.4%	3.3%	12.9%
Operating Profit	-28.8%	-6.6%	30.9%
Non-Op. Income	35.3%	51.7%	3.9%
Net Profit After Tax	11.8%	32.7%	7.6%
Total Assets*	4.7%	0.5%	6.8%
Cash & Cash Equivalents*	-8.7%	-8.8%	4.7%
Others:			
EPS (6M Annu)	28.7	31.3	26.0
NAVPS (Dec 2018)	141.1	128.8	184.5

*Growth for total assets and cash & cash equivalents over June 218
Source: Companies' Un-audited Financials & ILSL Research

- JAMUNAOIL posted highest growth in net earnings on petroleum products than the other two in its half yearly performance of 2018-19.
- Operating profit of JAMUNAOIL showed an impressive growth of 31% in the period due to the lower operating expenses. PADMAOIL and MPETROLEUM posted negative growth in operating profit due to increase in operating expenses.
- MPETROLEUM has the highest growth in net profit in the period due to the 52% growth in non-operating income.

Shareholding Structure:

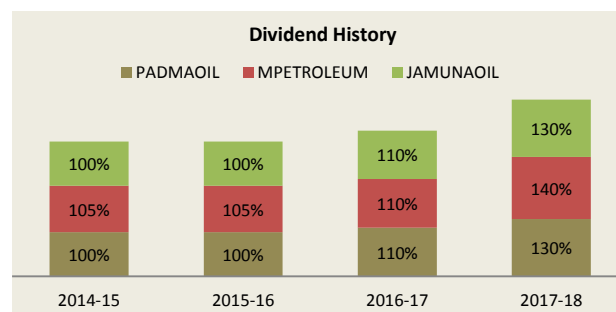
As on 31 January 2019, shareholding structure of these companies were as follows –

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Government	50.35%	58.67%	60.08%
Institute	34.60%	33.21%	20.35%
Public	12.71%	8.12%	16.08%
Foreign	2.33%	-	3.49%
Total	100.00%	100.00%	100.00%
Free-float shares (in mn)			
Outstanding Shares	98.23	108.22	110.42
Free Float Shares	48.77	44.73	44.08
Free Float (in %)	49.65%	41.33%	39.92%

Source: DSE Website & ILSL Research

Dividend History:

All these oil distribution companies of the country have been paying handsome dividends over the period. Oil distribution companies are increasing cash dividend declarations in the recent periods. Dividend history of these firms is as follows:



Source: DSE Website & ILSL Research

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Dividend Payout:					
PADMAOIL	46%	51%	52%	53%	38%
MPETROLEUM	44%	56%	61%	54%	42%
JAMUNAOIL	43%	49%	56%	54%	51%
Dividend Yield:					
PADMAOIL	3.1%	4.1%	5.4%	4.3%	5.7%
MPETROLEUM	3.5%	5.4%	6.1%	5.5%	7.4%
JAMUNAOIL	4.2%	5.1%	5.5%	5.3%	7.0%

Source: DSE Website & ILSL Research

In recent periods, dividend yield for the shareholders are increasing as the companies are declaring solely cash dividends. **In last two years, Jamuna oil exhibited higher dividend payout ratio than that of other two. However, shareowners of Meghna Petroleum are enjoying better yield than that of other two.**

Industry Overview:

Fuel sector is considered as most important sector of the economy. Macroeconomic indicators are being greatly influenced by the supply and movement of price of the petroleum products.

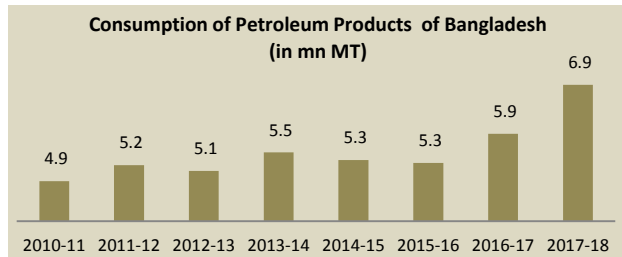
Import Dependent: The Country's demand of petroleum products is mainly sourced by import from different countries and some are sourced from local gas fields.

Transportation: At present, there are 95 costal tankers, 04 shallow draft tankers, 73 bay crossing shallow draft tankers and 19 mini oil tankers in three oil marketing companies transport pool of fuel oil. About 90% of the fuel oil are transported through the river, 8% fuel oil is transported by railway and rest 2% on the road.

Marketing Network: Currently, there are 2,203 filling stations, 3,040 agents/distributors, 682 packed point dealers and 3,133 LPG dealers in the marketing network of three oil marketing companies.

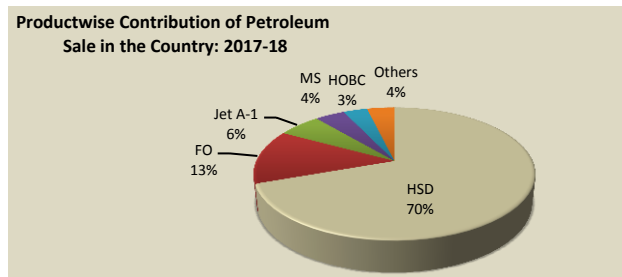
BPC's Total Storage Capacity: As of June 2018, BPC has storage capacity of 1.20 million M.Tons. BPC store its products through its all subsidiaries. Eastern Refinery Limited has the highest capacity ensuring 42% of total storage. The three oil distribution companies have 54.51% of the BPC's total oil storage capacity.

Demand Scenario: Consumption of petroleum products in the country is in increasing trend. Historical consumption is shown by the following figure:

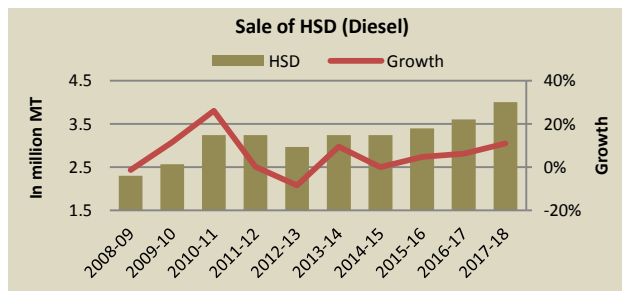


Source: BPC

Major Products: According to Bangladesh Petroleum Corporation (BPC) data, Diesel or HSD was the major product holding around 70% of total sales followed by Furnace Oil (13%) and Jet A-1 (6%). Diesel is primarily used in transport sector, irrigation and electricity producing generators. As a result, Diesel is the highest consumed product in the country.

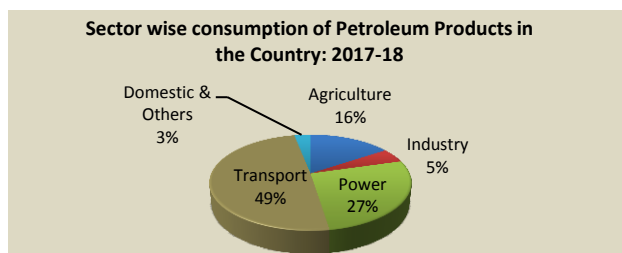


Source: Padma Oil Annual Report 2017-18



Source: BPC

Sector wise fuel consumption of the country in 2017-18 was as follows:



Source: Padma Oil Annual Report 2017-18

Future Outlook:

BPC is going to increase its storage capacity by 100,000 MT on 17 acre land adjacent to Mongla port. The estimated cost of the project is BDT 2.05 billion of which **33% of the investment will be provided by the three oil marketing companies. It is expected that the depot operations will start by March 2019.** Besides, a project of automation has been undertaken to modernize the operational activities at main installation of

three oil marketing companies. It will increase the operational efficiency for the companies.

Apart from these, the companies have several plans to increase their network efficiency, increasing storage capacity and others which are stated below:

Padma Oil Company Ltd.:

- **The Company has the plan to increase the market share of lubricants in automotive and industrial sector.**
- The DPP (Development Project Proforma) preparation has been completed for the installation to supply Jet A-1 fuel to the Company's Jet A-1 Depot adjoining Shah Amanat Airport through pipeline from the Company's main installation in Patenga.
- The construction of 23 storied Head Office multi-storied building in Agrabad, Chittogram is in progress.
- To expand the company's business, step has been taken to establish riverine depots at Bhairab Bazar and Barishal replacing the existing barge depots.

Meghna Petroleum Ltd.:

- To expedite the business, **Meghna Petroleum has taken initiative to set up a power plant** at Company's own land at Khulna as a part of business diversification.
- **The Company has taken a project to set up a lube blending plant** at its main installation. The plant capacity is 15,000 MT while the estimated cost of the project is BDT 200 million.
- **In October 2018, MPETROLEUM and British Petroleum launched a motorbike lube brand Viscobikes** to meet the growing demand of quality lubricant for bikes which were now considered as public transport in the cities.
- It has taken another project to construct LPG bottling plant and bottle manufacturing plant with a capacity of 100,000 on 14 acres of own land at Khulna.
- Company has established business relationship with some direct customers/industries/power plants.
- The Company has the project of "Meghna Bhaban" a 19 (Nineteen) storied Head Office Building at Agrabad, Chattogram. The construction works is continuing and hope that it will be completed within 2 years.
- The Company has informed that **for the purpose of business expansion, the company has signed an agreement with BP Middle East LLC, Dubai, UAE in February 2019 for marketing the Castrol brand lubricants in the Market of Bangladesh.**

Jamuna Oil Company Ltd.:

- **Company's storage capacity and operational capability have been increased by construction and renovation of storage tanks** at various depots and by expanding other operational facilities keeping in view the increase of future demand.
- Installation of network has been completed by this time for computerized accounting system and to bring other activities under networking system. The process is going to bring all depots under the computerized networking system. It has a plan to introduce E-commerce system in future.

- The construction of Jamuna Office Bhaban, a 20 storied building, at Kawran Bazar is in progress.
- The Company has taken several initiatives to increase the operational capacity by setting up full-fledge depots in lieu of barge depot in different places of the country.

Risk Concern:

- Demand for petrol and octane may decrease due to **introduction of use of Auto Gas** (Autogas is the common name for liquefied petroleum gas (LPG) when it is used as a fuel in internal combustion engines in vehicles as well as in stationary applications such as generators. It is a mixture of propane and butane) **in transport - the highest petroleum product consuming sector.**
- Sale of Diesel and Furnace Oil may face challenge in future as **the government is planning to introduce LNG in producing electricity.**
- Demand and sale of SKO (Kerosene) are decreasing day by day due to increase of **electricity generation and electrification of new areas in the country.**
- The oil distribution companies are facing great challenges directly with the private sector in case of marketing Lubricating Oil, Bitumen and LPG due to the increase of supply of these products and more competition of price as well.
- In 2017-18, Non-Operating Income, as a percentage of operating income, of PADMAOIL, MPETROLEUM and JAMUNAOIL was 86%, 122% and 195% respectively. Therefore, **a dip in interest rate could affect the bottom line of these companies' financials considerably.**

Assessment of the Oil Distribution Companies

Pricing Based on Sector's F. P/E:

Sector's F. P/E	13.3x		
Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
EPS (6m Ann.)	28.7	31.3	26.0
Estimated Value (BDT)	381.7	416.3	345.8

Pricing Based on Sector's P/B:

Sector's P/B	1.8x		
Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
NAVPS (at 31-12-2018)	141.1	128.8	184.5
Estimated Value (BDT)	253.9	231.8	332.1

Pricing Based on Peer Group's Historical P/E:

Peer* Group's P/E	9.1x		
Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Estimated Value (BDT)	261.2	284.8	236.6

*Peer group considers all the three oil companies

Expected Price Based on Relative Valuation:

Particulars	PADMAOIL	MPETROLEUM	JAMUNAOIL
Current Price (07-03-2019)	240.6	218.2	187.9
52-week Price	213.5 - 259.8	174.9 - 244.0	175.0 - 209.0
6M Ann EPS	28.7	31.3	26.0
Sector's P/B	253.9	231.8	332.1
Peer Group's Historical P/E:	261.2	284.8	236.6

Conclusion:

The country's economic development as well as growing industrialization will definitely stimulate the demand for petroleum products. Three fuel-oil distribution companies are contributing significantly to the total economy of the country by carrying out uninterrupted supply of petroleum products in all remote areas of the country. In that case, these oil distribution companies will also enjoy progress in their operations.

ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Kishan Saha	Executive - Research

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