INTERNATIONAL LEASING SECURITIES LIMITED

PADMA OIL COMPANY LIMITED

DSE: **PADMAOIL**
BLOOMBERG: **PADMAO:BD**

Company Overview

Padma Oil Company Limited (POCL) was incorporated on 27 April 1965 as Burmah Eastern Limited and became a subsidiary of Bangladesh Petroleum Corporation (BPC) in 1977. The primary activities of the Company are procurement, storage and marketing of Petroleum products, Lubricants, Greases, Bitumen and Liquefied Petroleum Gas (LPG) in Bangladesh. The Company procures refined petroleum oil from the state-run BPC and acts as a distributor to the end user. For this, POCL receives commission from BPC which is the main earnings of the Company. Direct costs of the Company are packing charges and product handling charges. In addition, the Company manufactures Agro Chemicals (Furadan) in its Granular Pesticides Formulation plant and markets Furadan together with other imported Agro-Chemicals products.

The Company has in total 2,838 nos. of distributors at various important location of the country. According to BPC's data, the Company has total storage capacity of 2.54 lac M. Tons. Currently, POCL has 34 Costal Tankers, 5 Shallow Draft Tankers, 26 Bay crossing Shallow Drafty Tankers and 10 Mini Oil Tankers in the petroleum oil transport pool.

Product wise Sales Breakdown (major contributor):

	Qty ('000 MT)	Growth (Qty)		Growth (Value)	Contribution
	2016-17	**2016-17**	**2017-18 (HY*)**	**2016-17**	**2016-17**
HOBC	65	25%	28%	14%	5%
Jet A-1	376	8%	8%	5%	15%
MS	83	63%	39%	49%	7%
SKO	42	-14%	-14%	-18%	2%
HSD	1,228	16%	21%	11%	62%
LDO	1	-67%	-91%	-76%	0%
FO	182	-6%	31%	-27%	6%
Lubs & Greases	4	0%	-0.4%	3%	1%

*Growth for 2017-18 is calculated for 6 months over the same period of last year. HOBC=Octane; MS=Petrol; SKO=Kerosene; HSD=Diesel; LDO=Light Diesel Oil; FO=Furnace Oil

In 2016-17, gross earnings on petroleum products increased by 29.51% compared to the previous year as the Government increased the distribution margin of the petroleum products on Diesel, Kerosene, Octane, Petrol by 100% and on Furnace Oil by 57% in April 26, 2016.

The Company generates a significant portion of its earnings from non-operating income (interest income from SND and FDR).

Amount in BDT mn	2014-15	2015-16	2016-17	2017-18*
FDR	461	6,797	3,251	2,899
Cash & cash Equivalents	16,732	18,313	33,910	46,101
Net earnings on petroleum products	1,810	1,869	2,446	1,310
Non-operating Income	**1,587**	**1,498**	**1,785**	**1,127**
% of Total Operating Profit	*140%*	*132%*	*167%*	*170%*

*6 months (July – December) data for 2017-18.

Shareholding Structure:

The Company was enlisted with the DSE and the CSE on 1976 and 1995 respectively. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
28-Feb-18	0.01%	50.35%	33.75%	2.48%	13.41%
31-Dec-17	0.01%	50.35%	33.25%	2.30%	14.09%
31-Dec-16	0.00%	50.35%	24.58%	0.00%	25.07%
31-Dec-15	0.01%	50.35%	25.54%	0.00%	24.10%

Company Fundamentals

Market Cap (BDT mn)	21,552.6
Market weight	0.7%
No. of Share Outstanding (in mn)	98.2
Free-float Shares (Public+Inst.+Foreign)	49.6%
Paid-up Capital (BDT mn)	982.3
3-month Average Turnover (BDT mn)	4.6
3-month Return	-8.9%
Current Price (BDT)	219.9
52-week price range (BDT)	213.5 - 269.0
Sector Forward P/E	11.5

	2014-15	**2015-16**	**2016-17**	**2017-18 (6M Ann.)**
Financial Information (BDT mn):				
Sales	146.69	135.245	146.559	167.621
Net Earnings	1,839	1,898	2,427	2,619
Operating Profit	1,130	1,137	1,247	1,642
Profit After Tax	1.928	1.874	2.031	2.520
Assets	96,215	113,639	145,931	173,080
L-Term Debt	-	183	183	183
Equity	8,237	9,128	10,177	11,437
Margin*:				
Operating Profit	61.4%	59.9%	51.4%	62.7%
Net Profit	104.8	98.7%	83.7%	96.2%
Growth:				
Sales	-5.0%	-7.8%	8.4%	14.4%
Net Earnings	-5.1%	3.2%	27.9%	7.9%
Operating Profit	-1.0%	0.6%	9.7%	31.6%
Net Profit	-9.4%	-2.8%	8.4%	24.0%
Profitability:				
ROA	2.1%	1.8%	1.6%	1.6%
ROE	26.9%	21.6%	21.0%	23.3%
Leverage:				
Debt Ratio	-	0.2%	0.1%	0.1%
Debt-Equity	-	2.0%	1.8%	1.6%
Int. Coverage	6.1	6.8	6.9	11.3
Dividend History:				
Dividend (C/B)%	100/-	100/-	110/-	-/-
Dividend Yield	4.1%	5.4%	4.3%	-/-
Dividend Payout	51.0%	52.4%	53.2%	-/-
Valuation:				
Price/Earnings	11.2	11.5	10.6	8.6
Price/BV	2.6	2.4	2.1	1.9
EPS (BDT)	19.6	19.1	20.7	25.6
DPS (BDT)	10.0	10.0	11.0	-/-
NAVPS (BDT)	83.8	92.9	103.6	116.4

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

Industry Overview

Fuel and power sector is considered as the most important sector of the economy. In view of its importance on the economy, Bangladesh Government has ensured full authority of this sector by forming Bangladesh Petroleum Corporation (BPC). It has established three Oil marketing companies, one Petroleum Refinery Company, two Lubricants Blending Companies and one LP Gas Bottling Company.

BPC has total storage capacity of 1.19 mn M. Tons and has taken a huge budgetary project to increase oil storage capacity within the next couple of years. It has planned to build 26 new oil storage tanks across the country to meet the mounting demands, of which 10 new oil storage tanks have already been completed.

In 2016-17, country's sale of petroleum products was 5.89 mn M. Tons increased by 12.04% compared to the last year. Use of HOBC in motor vehicles has increased as the Government cut the price of HOBC. Due to increase of demand of HSD in government/private HSD based power plants, sale of HSD increased in recent years. However, sale of MS decreased due to increased use of HOBS. SKO sale decreased as a result of increase of production of electricity and enhancement of electricity network of the country. Sale of FO decreased remarkably as the government allowed the private power plants to import FO directly at their own arrangement.

Sale of Product Qty (in '000 MT)	2013 -14	2014 -15	2015 -16	2016 -17
JET A-1	323	339	347	377
HOBC (Octane)	117	126	148	187
MS (Motor Spirit)	179	1.67	1.37	232
SKO (Kerosene)	290	2.63	2.14	171
HSD (Diesel)	3,243	3,396	3,606	4,000
LDO (Light Diesel Oil)	1	3	3	1
JBO (Jute Batching Oil)	24	19	17	17
FOHS (Fuel Oil Handling System)	1,203	907	712	806
LUBE	18	18	17	19
MTT (Mineral Turpentine)	8	7	2	1
LPG	18	17	16	16
BITUMEN	62	60	36	55
TOTAL	**5,485**	**5,321**	**5,256**	**5,888**
Growth	**7.83%**	**-2.98%**	**-1.23%**	**12.04**

At present, there are 95 Costal Tankers, 8 Shallow Draft Tankers, 73 Bay Crossing Shallow Draft Tankers and 23 Mini Oil Tankers in oil marketing companies' transport pool of petroleum oil. 90% of fuel is carried through river and the rest 8% & 2% trough rail and road respectively. Besides, there are in total 2,121 filling stations, 3,049 agents/distributors, 746 packed point dealers, 3,138 LPG dealers and 111 marine dealers of oil marketing companies.

Bangladesh requires 5.5 million tons of petroleum annually, of which crude oil accounts for 1.3 million tons of domestic demand while the rest is for refined oil. And of the total import 64% is diesel, 17% furnace oil and 5% kerosene. The rest are octane, petrol and other products. In 2016-17, transport sector consumed about 51.60% of total petroleum sale followed by Power (23.30%) and Agriculture (15.38%).

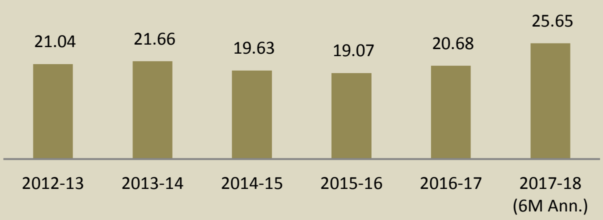
Investment Positives

- **Bank deposit rate has a significant impact on the bottom line of the Company. It receives interest income from FDR which contributes greatly in its earnings. Hence, rise in the bank deposit rate will increase in non-operating income which will boost up the net profit of the Company.** As per the Financial Express news published on March 06, 2018, on an average, the term deposit rates are hovering between 9.00% and 10.00% which was 5.01% in January 2018. Meanwhile, the recent decision of allowing the state enterprises to deposit 50% of their fund with the private commercial banks (PCB) up from 25% limit might increase their interest earnings as the PCBs are offering better deposit rates than the state-owned banks.
- **In 2016-17, sale of HSD (Diesel) increased by 16% over last year which contributes 62% in the revenue in the same period.** Demand for HSD is increasing due to increased used in machinery for manufacturing, navigational and land-based vehicles such as launches, ships, trains, trucks, buses and in engines used for irrigation.
- **Sale of MS (Petrol) & HOBC (Octane) increased by 63% & 25% respectively due to restriction applied by the Government on illegal supply by the various fractionation plants** and rise of demand for the products in the period. MS & HOBC contributed 7% & 5% respectively in the period.
- **In the first 6 months of 2017-18, sale of FO (Furnace Oil) increased by 31% than that of last year as a result of increase of demand for FO by the government and private power plants.** However, the sale of Furnace Oil (FO) was in decreasing trend as the owners of private power plants got license for importing of furnace oil by themselves. In 2016-17, FO contributes 6% to the revenue whereas the contribution increased to 7% in the first half of 2017-18.
- **In 2016-17, the Company has completed the construction of new Jet A-1 Delivery point at Godenail Depot**, Narayangonj (to transport white petroleum products from Chittagong to *Godenail depot* for smooth, safe, faster and cost effective manner), and three fuel storage tanks of 2,500 MT capacities each leased from Civil Aviation Authority of Bangladesh. This enabled the Company to register 8% and 26% growth in turnover in 2016-17 and in 6 months of 2017-18 respectively. **Jet A-1 fuel contributes around 16% to the Company's total revenue.**
- To expand the business, the Company is contributing 33% cost of a project taken by BPC for installation of 1.00 lac MT storage capacity. 80% of construction of the project has been completed. It is expected that the construction will be completed by 2018.
- The Company has been paying a stable dividend over the years.

Investment Negatives

- **Sale of Kerosene (SKO) is in decreasing trend as a result of increasing electricity generation and electrification of new areas. In 2015-16 & 2016-17, turnover from SKO decreased by 22% & 18% respectively and its contribution to the revenue was 2% in 2016-17 came down from 4% in 2014-15.**

- Business of the Company is directly related to economic condition of the country. Therefore, any sort of volatility like political turmoil will shrink the Company's operation which will consequently affect the financial performance.



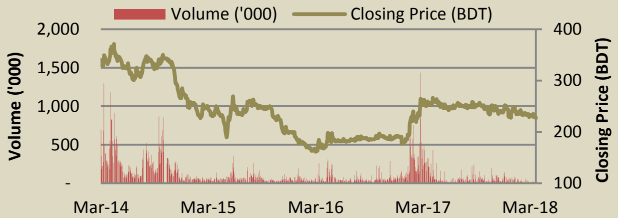
Yearly Restated EPS (BDT)

Latest Quarter Update

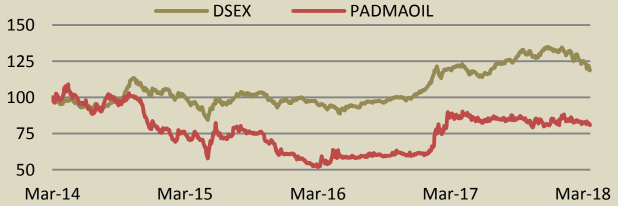
Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
Turnover	**83,810**	**68,317**	**--**	**--**
Growth	*22.7%*	--	--	--
Net Earnings on Petroleum Products	**1,310**	**1,010**	**701**	**454**
Growth	*29.7%*	--	*54.4%*	--
Operating Profit	**661**	**633**	**378**	**330**
*Margin**	*50.5%*	*62.7%*	*53.9%*	*72.7%*
Growth	*4.4%*	--	*14.5%*	--
Net Profit	**1,260**	**1,074**	**639**	**505**
*Margin**	*96.2%*	*106.3%*	*91.2%*	*111.2%*
Growth	*17.3%*	--	*26.5%*	--

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

- Turnover of the Company has increased by 22.7% in the Jul-Dec of 2017-18 over the same period of last year due to increased sale of petroleum products – HOBC (28%, Jet a-1 8%, MS 39%, HSD 21% and FO 31%. Sale of total petroleum products increased by 19.79% in the period.
- Operating profit margin has decreased to 50.5% in the reported period from 62.7% over the same period of last year due to the increase in administrative, selling and distribution expenses. Administrative, selling and distribution expenses increased due to increase in salary and wages of the employees.
- Net profit of the Company has increased by 17.3% than that of previous year because of increase in non-operating income. Increase in interest income from SND/FDR mainly contributed to increase non-operating income.



Historical Price (BDT) & Volume ('000) Movement



Movement of DSEX & PADMAOIL Index (Rebased)

Price* at various Price/Earning (P/E) multiple

	Value
At P/E = 8.0, Price would be	205.2
At P/E = 10.0, Price would be	256.5
At P/E = 12.0, Price would be	307.8

*Based on latest Half Yearly Financial Statements (July-December 2017)

Concluding Remark

Padma Oil Company Ltd. Is one of the three petroleum marketing companies in the country. Non-operating income contributed significantly in its earnings. Recent increase in bank deposit rate will positively hit its bottom line. The ongoing development projects of the Company will boost up the profitability in the coming years.

Source: Annual Reports, DSE Website, the Financial Express, the Daily Star, ILSL Research, BPC Website, Company website.

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