

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 the procurement, storage and marketing of Petroleum products, Lubricants, Greases, Bitumen and Liquefied Petroleum Gas (LPG) in Bangladesh. In addition, the company manufactures Agro Chemicals (Furadan) in its Granular Pesticides Formulation plant and markets Furadan together with other imported agro-Chemicals products. According to BPC's data, the Company has total storage capacity of 2.03 lac M. Tons. In 2013-14 the company allotted 42 nos. of new distributors to strengthen its network. Up to now POCL has 589 Filling Stations, 263 Packed Point Dealers, 1,043 Agents, 770 LPG Dealers, 49 Barges, Lub Oil 3 and 240 Chemicals Distributors.

In 2013-14, POCL sold 18.29 lac M.Ton petroleum products and ensured 33.22% market share. Around 49.87% of revenue was generated from High Speed Diesel (HSD) followed by Jet A-1 (21.86%) and Fuel Oil (12.84%). In 2013-14, the Company's net earnings on petroleum products were BDT 1,838.25 mn increased by 22.28% which was BDT 1,503.28 mn in the last year. The agro-chemicals business of the Company posted a profit of BDT 18.22 mn in 2013-14 while it showed a loss of BDT 11.79 mn in the previous year. Net profit of the company showed 2.92% growth in the year 2013-14 due to increase in gross earnings on petroleum products.

The Company was enlisted with the DSE and the CSE on 1976 and 1995 respectively. Around 50.35% of shares are held by Government whereas 23.77% and 25.88% of shares are held by Institutions and General Investors respectively.

Industry Overview

Fuel and power sector is considered as the most important sector of the economy. Macro-economic indicators are greatly influenced by this sector. In view of its importance on the economy, Bangladesh Government has booked 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 1.02 mn M. Tons. It is now implementing a plan to increase the oil storage capacity to 1.18 mn Tons within the next couple of years. Therefore, it planned to build 26 new oil storage tanks across the country to meet the mounting demands, of which 14 new oil storage tanks with a total capacity of 100,000 Tons would be built by 2014.

Bangladesh's oil demand has surged after it launched a drive to increase the number of oil-based power plants from only 8% in FY09 to 25% in November 2013. Country's total demand of petroleum was 5.026 mn M. Tons during FY 2012-13 which was 5.213 mn M. Tons in 2011-12. In 2012-13, Communication sector consumed about 45.0% of total petroleum sale followed by Power (24.8%) and Agriculture (19.4%).

BPC has estimated to import around 5.9 mn Tons of crude and refined oil during the fiscal year 2013-14. Recently Government allowed private sector fuel Supply Company to import Diesel

and Furnace Oil for supply to its newly installed fuel based power plants.

BPC is now incurring loss of BDT 10.23 and BDT 10.17 for selling per litre of diesel and kerosene respectively. The cumulative deficit of the BPC stood at BDT 293.14 billion from FY 2008-09 to FY 2012-13 of which the government has paid BDT 285.07 billion as subsidy.

Company Fundamentals

Market Cap (BDT mn)	23,998.3
Market weight	0.89%
No. of Share Outstanding (in mn)	98.2
Free-float Shares	49.7%
Paid-up Capital (BDT mn)	982.0
3-month Average Turnover (BDT mn)	17.53
3-month Return	-0.4%
Current Price (BDT)	241.5
52-week price range (BDT)	188 – 357.5
Sector Forward P/E	13.5

	2011-12	2012-13	2013-14	2014-15 (9M Ann.)
Financial Information (BDT mn):				
Sales	132,126	141,446	154,425	150,260
Profit After Tax	849	820	714	534
Assets	1,463	2,067	2,127	1,575
L-Term Debt	73,288	79,185	90,223	101,211
Equity	-	-	-	-
Dividend (C/B)%	65/35	90/10	100/-	-/-
Margin:				
Gross Profit	1.2%	1.1%	1.2%	1.1%
Operating Profit	0.6%	0.6%	0.5%	0.4%
Pretax Profit	1.6%	2.1%	1.8%	1.4%
Net Profit	1.1%	1.5%	1.4%	1.0%
Growth:				
Sales	28.3%	7.1%	9.2%	342.2%
Gross Profit	0.0%	-1.7%	23.7%	441.0%
Operating Profit	96.0%	-3.4%	-12.9%	1743.5%
Net Profit	66.9%	41.3%	2.9%	355.6%
Profitability:				
ROA	2.3%	2.7%	2.5%	1.7%
ROE	38.7%	40.1%	32.1%	23.2%
Leverage:				
Debt Ratio	-	-	-	-
Debt-Equity	-	-	-	-
Int. Coverage	7.6	7.7	6.2	4.7
Valuation:				
Price/Earnings	18.7	13.9	14.8	15.2
Price/BV	5.5	4.0	4.4	4.3
EPS (BDT)	16.4	21.0	21.7	16.0
DPS (BDT)	6.5	9.0	10.0	--
NAVPS (BDT)	48.5	60.8	74.2	76.2

Investment Positives

- To expand the Company's business, a project has been taken to establish an installation of 1.00 lac MT storage capacity on 17 acre land of BPC, nearby Mongla Port. The estimated cost for the project is BDT 17.92 bn of which the company would bear 33% of the cost. The project is expected to be completed by 2016.
- The company has taken several other projects i.e., construction of aviation refueling facilities for Sylhet Osmani International Airport, construction of Hydrant Line to meet the additional demand of refueling and establishment of underground pipeline to ensure uninterrupted fuel supply to Hazrat Shahjalal International Airport. The project is under process and is expected to be completed by 2015. All these projects will improve the supply capability of the company that will eventually boost its profitability.
- The Company has signed MOU with Glincore Singapore Limited to set up a petrochemical plant for production of oil and chemical. When this plant comes into commercial operation, productivity and revenue of the Company expected to improve.
- The Company has been paying a stable dividend (both cash and stock) over the years.

Investment Negatives

- 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.
- Earnings from non-operating income added considerably to the company's profitability. In 2013-14, non-operating Income (interest come from SND & FDR) was BDT 2.3 bn whereas Gross Earnings on Petroleum Products was BDT 1.6 bn. Hence, profitability of the company would be hampered if there is any deterioration in bank deposit rate.

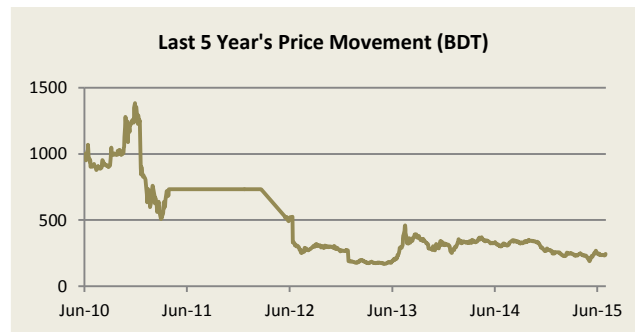
Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	13.5	216.4
Sector Trailing P/E	14.4	311.8
Sector P/B	2.2	167.7

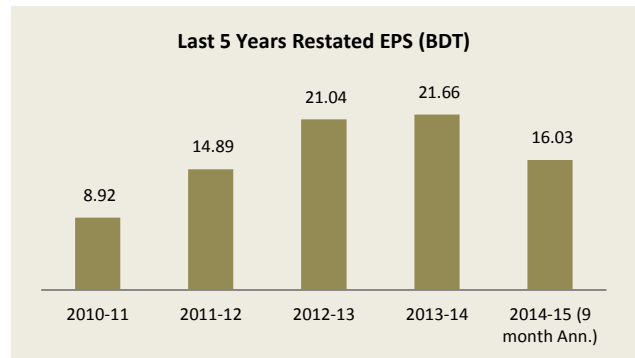
ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Md. Tanvir Islam	Sr. Research Analyst
Towhidul Islam	Research Analyst
Mohammad Asrarul Haque	Jr. Research Analyst

For any Queries: research@ilsbd.com



Note: The trading remained suspended during 30 Mar, 2011 – 13 May, 2012 as the company did not notify the regulators about the second-time dividend announced in the same year.



Concluding Remark

Padma Oil Company Ltd. is one of the largest petroleum marketing company as well as one of the biggest Agrochemicals Company of the country. In its latest 9 month earnings declaration, the Company reported net profit after tax of BDT 1,181.02 mn which was BDT 1,576.20 mn for the same period of the previous year registering a 25% negative growth because of 37.58% decrease in the non-operating income from the last year. As on date, the Company's RSI (15) and MFI (15) were 57.25 and 42.35 respectively.

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