Oil Marketing Companies

APL outshines its industry rivals

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Domestically, Pakistan's petroleum industry has been severely impacted by global price fluctuations, along with internal challenges such as weak manufacturing activity, economic slowdown, and illicit imports of petroleum products. These factors have caused a downturn in sales, with a 3% drop in white oil consumption and a 4.1% and 2% decline in MoGas and diesel sales, respectively.

The slowdown in the automotive industry further reflects this downward trend, with car sales plunging by 21%, driven by rising car prices and high-interest rates on auto loans. However, with expected economic adjustments and easing market conditions, a gradual improvement in the economy is anticipated.

Macroeconomic Conditions:

In 2024, Pakistan's economy showed signs of recovery with improved agricultural growth, reduced inflation, and a better current account balance. The completion of the IMF program boosted foreign reserves and stabilized the PKR/USD exchange rate. Inflation fell to 12.6% by June, down from a high of 30% in December, while the exchange rate remained steady. However, challenges persist, including weak manufacturing, high debt servicing costs, and elevated energy prices, which contributed to declining fuel demand and reduced industrial activity. Despite these hurdles, the oil marketing sector demonstrated resilience, maintaining market share through strategic adjustments and operational efficiency.

Financial Comparison:

Attock Petroleum Limited (APL)

APL has shown strong financial performance, with consistent sales growth and profitability. Sales grew by 96% in 2022, 28% in 2023, and 11% in 2024. Its gross profit margin (GPM) peaked at 11.1% in 2022 and remained stable at 4.2% in 2024. The net profit margin (NPM) was 5% in 2022 and held at 2.6% in 2023 and 2024. APL also has an impressive PE ratio of 3.84 and a dividend yield of 6.44%,.

Pakistan State Oil (PSO)

PSO's performance has been volatile, with a 104% sales surge in 2022 but a slowdown to 5% in 2024. Its margins weakened over time, with a GPM of 2.7% and an NPM of 0.4% in 2024. PSO also faces negative EPS growth and a higher PE ratio, making its profitability and growth less stable. However, it offers a dividend yield of 5.2%.

Hi-Tech Lubricants Limited (HTL)

Sales Growth	2021	2022	2023	2024
PSO	9%	104%	38%	5%
APL	-6%	96%	28%	11%
HTL	88%	67%	-12%	55%
SHEL	51%	66%	5%	-74%*

GP Margin	2021	2022	2023	2024
PSO	4.5%	6.6%	2.2%	2.7%
APL	5.3%	11.1%	5.5%	4.2%
HTL	16.9%	15.3%	10.2%	6.0%
SHEL	9.5%	8.1%	7.1%	5.3%*

NP Margin	2021	2022	2023	2024
PSO	2.4%	3.5%	0.2%	0.4%
APL	2.6%	5.0%	2.6%	2.6%
HTL	3.4%	4.2%	-0.6%	0.5%
SHEL	1.8%	0.0%	1.4%	0.9%*

**: The data is based on the half-yearly results as of June 2024, with December marking the year-end for the respective companies.*

HTL has experienced irregular performance, with a 12% decline in sales in 2023 followed by a 55% recovery in 2024. Despite this rebound, its margins have deteriorated, and profitability remains under pressure. The company has recorded negative EPS growth and maintains a high PE ratio, making it less appealing.

Shell Pakistan Limited (SHEL)

SHEL's financial performance has also been unstable, with ongoing profitability issues. The company has recorded negative EPS growth and struggles with a high PE ratio which limits its attractiveness. Although, it offers a dividend yield of 3.4%.

Conclusion

In comparing the financial performance of PSO, APL, HTL, and SHEL, APL stands out as the most attractive option due to its consistent sales growth, stable margins, and favorable valuation metrics. It recorded 82% EPS growth (CAGR), the lowest PE ratio at 3.84, and a 6.44% dividend yield, reinforcing its strong position. In contrast, PSO, HTL, and SHEL face challenges such as volatility, negative EPS growth, and high PE ratios. PSO's and SHEL's weaker profitability and lower dividend yields further reduce their appeal. Hence APL's consistent sales growth, stable margins, and favorable valuation metrics make it the most compelling option in this comparison.

Impact of Circular Debt:

As of June 30, 2024, PSO reported circular debt of PKR 482.2 billion, representing 98% of its total trade debts. This debt includes inter-corporate liabilities involving GENCO, HUBCO, and SNGPL, as well as customer payments. Despite PSO's efforts to address these liabilities, progress has been slow, leading to a buildup in trade debts. PSO maintains that the debt is recoverable, citing the Government of Pakistan's commitment to resolving circular debt in the energy sector. In contrast, APL has a much smaller circular debt exposure of PKR 1.859 billion, just 24% of its total trade debts, positioning it better in terms of liquidity and operational stability.

Technical Analysis:

On the monthly timeframe, the stock appears to be at low in the curve, as it is still trading below the 50% Fibonacci level. This suggests a potential for an upside move. In the weekly timeframe, the price is consolidating after testing the 50MA support at 397, but the overall bullish trend remains intact, as the bullish structure line is still holding. A rally and a resumption of the bullish trend are anticipated once the price closes a week above 425.

On the daily timeframe, the price is currently consolidating between two DMAs, with the 200DMA providing support at 400 and the 50DMA acting as resistance at 425. The daily RSI sits around 50, reflecting a neutral stance but with potential for a move in either direction. Price action indicates strong rejections from the 400–405 demand area, signaling a potential shift in momentum from bearish to bullish. Entry points are recommended around the 400–405 range (with confirmation) or after a close above 425 for a safer approach, with an initial target of around 550.

Key Metrics	EPS (4-Year CAGR)	PE	DY
PSO	-18.3%	5.62	5.18
APL	82.0%	3.84	6.56
HTL	-32.5%	43.24	-
SHEL	-40.2%	8.61	3.38

**: The data is based on the half-yearly results as of June 2024, with December marking the year-end for the respective companies.*

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DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

I. Discounted Cash Flow Model
II. Dividend Discount Model
III. Relative Valuation Model

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