Refinery Research

BYCO Petroleum Pakistan Ltd.

Improving Performance!

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July 18, 2018

Company Name:	BYCO Petroleum Pakistan Ltd
Symbol	BYCO

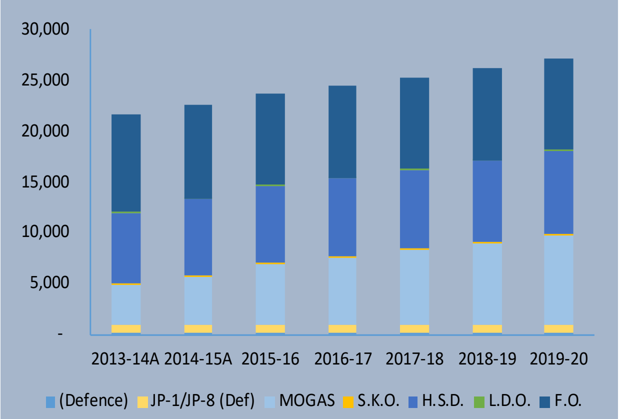
Key Statistics

Current Price*	PKR 11.46
Volume	0.795mn
Average daily volume	2.5mn
52 Week High	22.97
52 Week Low	11.07
Market capitalization*	61,080 mn
Beta	1.61
Shares Outstanding	5329.88mn

Source: PSX & WE Research

** Price as on 17July-2018*

Demand for POL Products

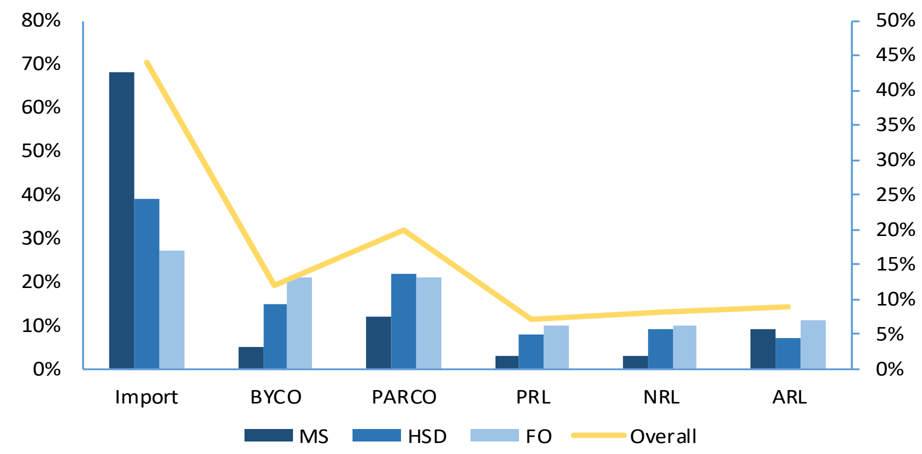


Source: Company Accounts & WE Research

BYCO, a vertically integrated company, operates in two business segments; 1) Oil Refinery 2) Petroleum marketing (OMC). BYCO offers variety of products including Liquefied Petroleum Gas (LPG), Light Naphtha, Heavy Naphtha, high octane blending component, motor gasoline, kerosene, jet fuels, high-speed diesel (HSD) and furnace oil (FO). The average production capacity in Direct Attached Storage (DAS) is 1%, 24%, 47%,26%, 3% for LPG, MS, HSD, FO and others respectively as of April '18. The company owns and operates SPM technology to import and export crude oil and POL products. BYCO captures 12% market share in overall country product sourcing, comprises of 5% in MS, 15% in HSD & 21% in FO. In FY18, the average daily trading volume and price of BYCO recorded at 2.5mn & PKR 15.71/share respectively in the local bourse while it made a high and low of PKR 22.97 and PKR 11.69 respectively.

Oil Industry Overview:

Country Product Sourcing *Source: BYCO & WE Research*



OMC sector has outperformed the benchmark KSE-100 index by 4% during CY18TD. Multiple factors such as (1) rebound in international crude oil prices (Crude oil – WTI up by 13 in CY18TD), (2) strong petroleum (POL) product sales, (3) slowdown in accumulation of circular debt stock and (4) overall improvement in outlook amidst fast progress on China Pakistan Economic Corridor (CPEC) have contributed towards the recent performance. We believe that strong performance is likely to continue as OMCs look geared to witness a period of super growth mainly in the White Oil segment (MS and HSD). With the recent rebound in international oil prices, OMC sector moved towards stability in Sales, Gross Refinery Margins (GRM) & Net Profit Margin (NPM) with consumption of POL products surging by 29% in last 8 years along with improved volumes (21.08mn M. tones in FY14 versus 25.91mn M. tones in FY17). The volume has slightly declined in FY18 (25.36mn M. tones versus 25.91mn M. tone) owing to fall in FO consumption due to shutdown of FO based Power Plants. We expect that consumption and demand for HSD from CPEC and domestic level for motor spirit (MS) petrol will significantly rise the volume in upcoming period. On Average BYCO consumes 26mnMT where 60% is imported and 40% from local production.

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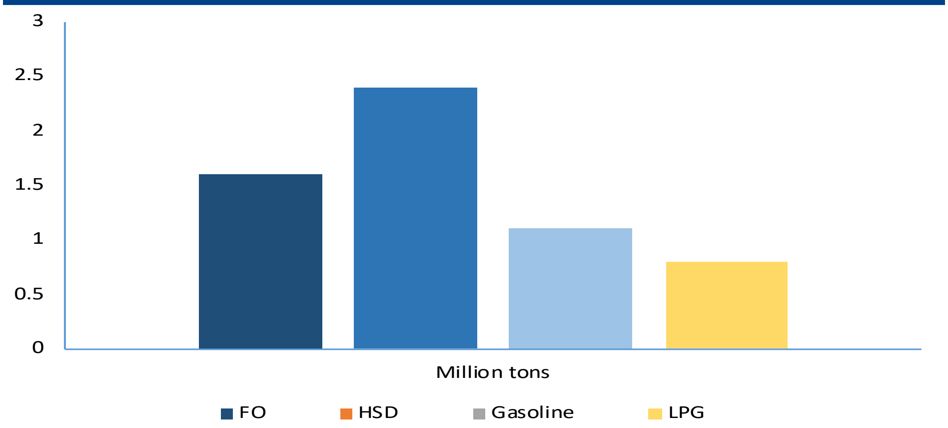
“MS obtained from Isomerization renders value addition in exporting Naphtha, while Catalytic reformer continuously converting Crude Oil into valuable energy and non-energy products”

Highest capacity Isomerization and Catalytic Reformer:

BYCO has largest capacity Isomerization unit (12,500 bpd) and overall refining produce ~20% Naphtha (of which 50% light Naphtha & 50% heavy Naphtha). Isomerization converts light Naphtha into MS. The company’s wholly owned subsidiary, Byco Isomerization Pakistan (Pvt) Ltd. has commissioned country’s largest technology isomerization plant with exceptionally higher capacity of 12,500bpd that generates higher Octane value component of MS. At current level, BYCO produces and supply 40,000 tons/month that would be increased to 65,000 tons/month in coming days. Moreover, the new Refinery (Catalytic reformer) has become largest refining Complex in the country that converts heavy Naphtha into MS. The current share of petroleum production in Pakistan by BYCO is increased from 11% to approximately 39% after its new Refinery is commissioned and brought into commercial operations. The new Refinery has enhanced overall crude oil refining capacity in the country and on average, it produces about 1.6 million tons of Fuel Oil, 2.4 million tons of Diesel, 1.1 million tons of Gasoline and 0.8 million tons of LPG on an annual basis. These volumes are required for Pakistan's consistently rising energy needs.

Catalytic Reformer Average Production *Source: BYCO & WE Research*



“SPM can facilitate night navigation and berthing, allowing the company to offload crude oil and petroleum products at all hours of the day “

Single Point Mooring (SPM): Floating Jet (National Asset):

BYCO continuously enjoys low cost export and import by installing SPM, located in deep sea with approximate distance of 15km from BYCO site located at Mouza Kund, Balochistan, Pakistan, with total investment of PKR 10.5bn (funded with 1.8bn debt & 8.7bn by company’s shareholders). Currently, SPM can handle vessels of 100,000 deadweight tonnages (“DWT”), Very Large Crude Carriers (“VLCC”s) of up to 250,000 DWT. Going forward, two more pipelines can be added to expand capacity and enhance facility’s throughput.

The absolute advantage of having SPM is low freight cost, high savings (0.25cents/barrel) in operational efficiency by PKR 14.148mn yearly due to berthing of large crude parcels as compared to bowzers used before commissioning of SPM, which led to higher transport costs and inventory losses. Further, it’s available 24/7 (equipped with night navigation) resulting in improved working capital cycle for the company. Since commencement of SPM, total no of 104 vessels are handled, bearing total volume of 5.23 MMT of POL products.

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Earnings Outlook

Mn PKR	3QFY17	3QFY18	YoY
sales	23,989	44,937	87%
COGS	(22,096)	(42,809)	94%
GP	1,894	2,128	12%
Other income	145	157	9%
Financial cost	(376)	(603)	60%
PAT	389	901	2.32x
EPS	0.07	0.17	2.43x

Source: BYCO & WE Research

"BYCO posted 12% rise in Gross profit and 2.32x surge in PAT due to commencement of ORC 11 in 3QFY18"

'GRM to rise on account of expected higher refinery throughput sales.'

Key highlights 3QFY18:

BYCO' top line registered a growth of 87% to clock in at PKR 44bn against PKR 24bn in 3QFY17 while GP recorded at PKR 2.13 bn against PKR 1.89 bn in 3QFY17 primarily due to large refinery operations commencement. Increase in volumetric sales, company's better marketing and pricing strategy, resulted in increased PAT PKR 9.01mn against 3.89mn in 3QFY17. It is expected that company would benefit further with increase in refinery and reformer throughput. All in all, BYCO is subject to reduce HSD product prices and is expected to start production of Euro-II compliant very shortly.

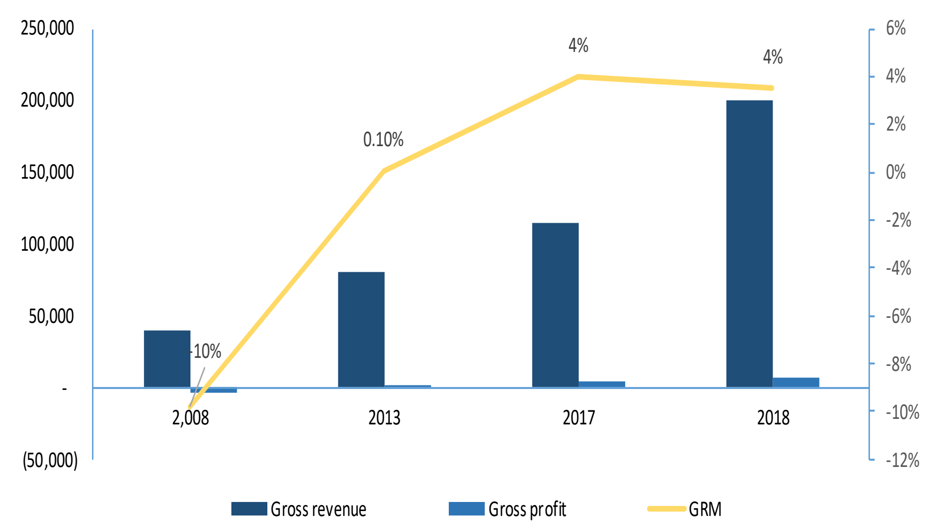
Improving Production:

With ORCII online, BYCO is now operating at increased capacity of 155,000 bpd (ORC I: 35K bpd; ORC II: 120K bpd), a 5x production raise posted in 3QFY18. Sales will further get a boost as the management plans to utilize ORC 2 equipped with catalytic reformer at its full capacity, which would allow the company to convert heavy naphtha into MS (gasoline) as per demand. Byco's management anticipate Reformer to help generate higher GRM in coming period.

Robust fundamentals to boost profitability:

Improving GRM: BYCO recorded major decline in gross profit by PKR 3,909mn (GRM -10%) in FY08, considered as the destructive year due to severe financial crises and large capital holdups and working capital constraints. Further, due to volatile crude oil prices, increasing Rupee-dollar parity and high financial charges (high Debt against equity) suppressed the bottom-line margin. During FY13, substantial increase witnessed in sales turnaround on the back of annual refinery throughput of 5.7mn barrels versus 0.95mn barrels in FY12 and better sales from suppliers of OMC segment reaching GRM at 0.10%. In 9MFY18, BYCO records GRM of 4% (gross profit of 7,083mn versus 4,616mn) primarily due to increased cumulative production of 75K barrel/day by BOPL, BYCO OMC and BYCO Terminal Pakistan Ltd. BYCO profitability improved on account of better refining and marketing margins and better working capital management.

Gross Refinery Margins (GRM) *Source: BYCO & WE Research*

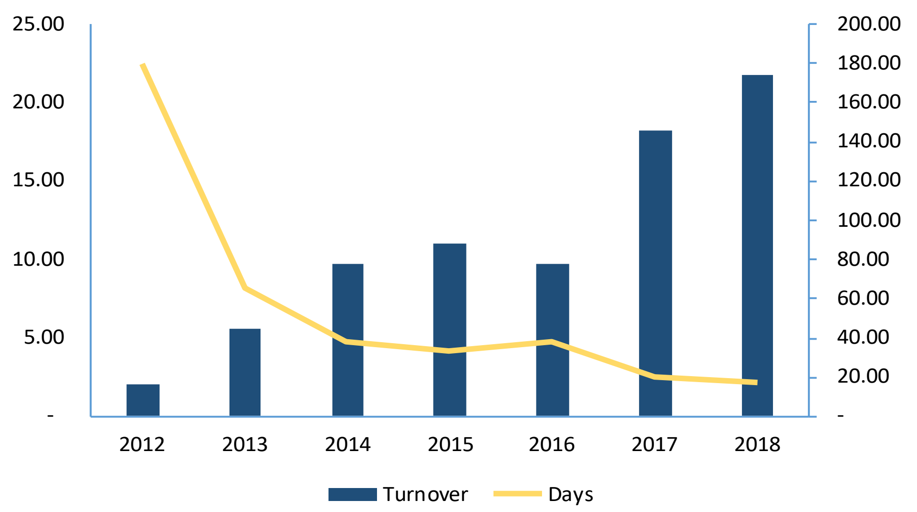


'Improvement in capacity utilization, Better working capital management & inventory gain to boost profitability.'

"At the current level of crude refining, MS Production has increased five-fold"

Better Inventory Turnover Days: BYCO is managing inventory efficiently which leads to higher sales and lower receivables days since the inventory turnover days recorded at 31 days in FY17 as opposed to 93 days in FY08 due to diversified customer base (i.e. PSO, PARCO, ASCOL, KE etc.). We believe BYCO will have inventory gain (leads to higher profitability) in 4QFY18 on the back of increasing production to meet ongoing demand.

Inventory Turnover (Days) *Source: BYCO & WE Research*



Growth aspects: With demand for POL products projected to grow by 10% in FY19, Byco's enhanced capacity in place (equipped with the largest Isomerization and Reformer converting excess Naptha into higher octane MS/HSD) and a growing OMC network, BYCO is well poised to enter into a period of sustained growth and profitability converting challenges into opportunities.

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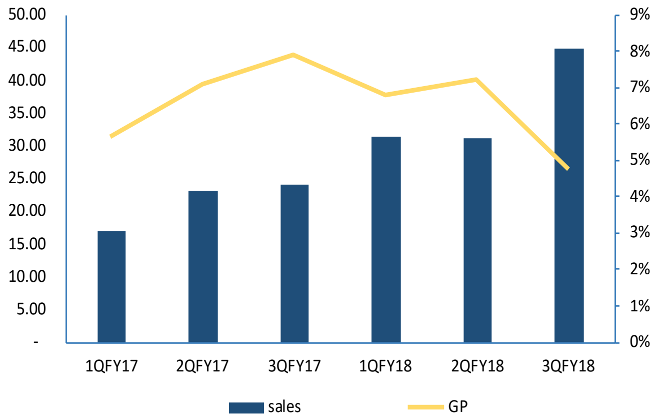
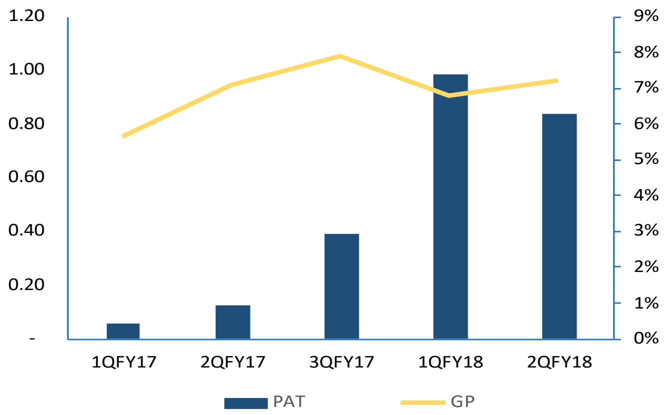
Sales (PKR bn) & GP (%)

Source: BYCO & WE Research



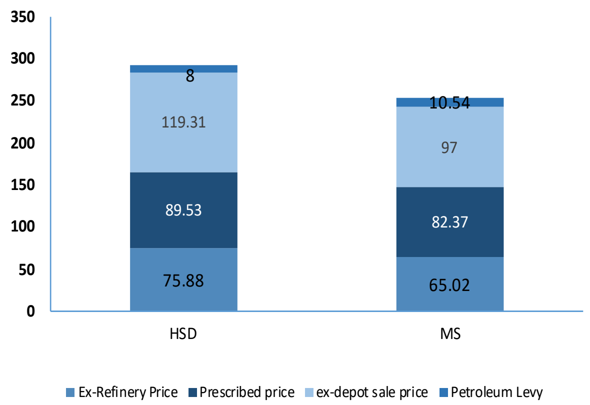
PAT (bn) & GP (%)

Source: BYCO & WE Research



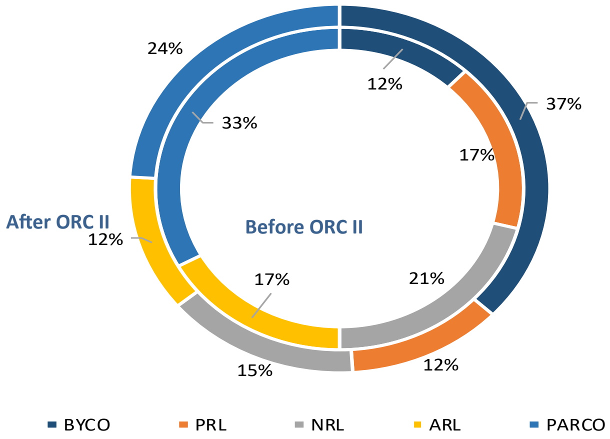
Petroleum Product July Price

Source: OGRA & WE Research



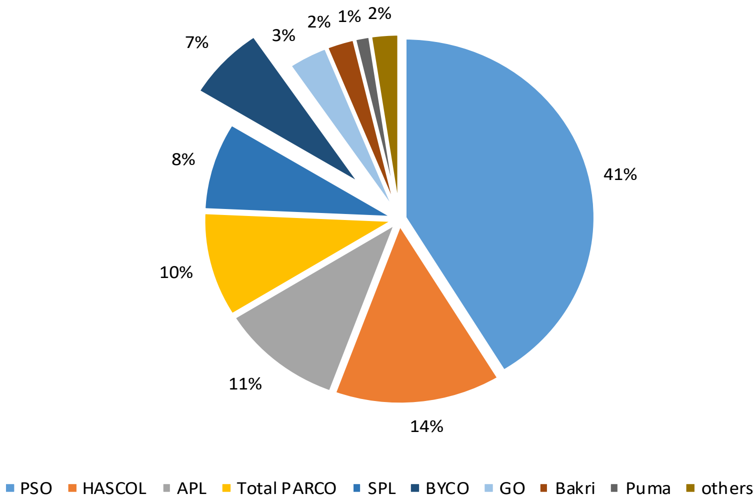
Refining Market Share

Source: BYCO & WE Research



Market Share of BYCO (April-18)

Source: BYCO & WE Research



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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as Dec 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

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The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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