INTERNATIONAL LEASING SECURITIES LIMITED

JAMUNA OIL COMPANY LIMITED

DSE: **JAMUNAOIL**

BLOOMBERG: **JMOIL:BD**

Company Overview

Jamuna Oil Company Ltd. (JAMUNAOIL), a subsidiary of Bangladesh Petroleum Corporation (BPC), was incorporated on 12 March 1975. The business of the Company is marketing of refined petroleum oil, Lubricants, Liquefied Petroleum Gas (LPG) and Bitumen in Bangladesh.

The current storage capacity of the Company is 1.84 Lac M. Tons. There are 6 major products i.e. HOBC (Octane), MS (Petrol), SKO (Kerosine), HSD (Diesel), FO (Furnace Oil), JBO (Jute Batching Oil) and 3 minor products i.e. Lube & Grease, Bitumen and LPG offered by the Company. In 2015-16, market share of the Company was 30.56% and handled 1.61 mn M. Tons products which were 1.77% lower than that of last year.

Composition of Net Earnings (based on amount):

	Contribution			Growth		
	2013-14	2014-15	2015-16	2013-14	2014-15	2015-16
HOBC	3%	3%	1%	49%	22%	-85%
MS	22%	37%	0%	-1%	99%	-100%
SKO	9%	7%	4%	31%	-11%	-69%
HSD	32%	25%	51%	23%	-8%	3%
FO	17%	13%	23%	-20%	-9%	-9%
LUBRICANTS	15%	14%	19%	-3%	5%	-30%
LPG	0%	0%	1%	-15%	-2%	0%

Historical Sales Quantity of Petroleum Products:

	Qty ('000 MT)			Growth		
	2013-14	**2014-15**	**2015-16**	**2013-14**	**2014-15**	**2015-16**
HOBC	24	32	40	-17%	30%	26%
MS	57	55	46	9%	-3%	-17%
SKO	105	104	73	-5%	-1%	-30%
HSD	1,044	1,076	1,193	11%	3%	11%
FO	381	341	236	-4%	-10%	-31%
JBO	6	5	4	-4%	-15%	-17%
LUBRICANTS	5	5	4	8%	-4%	-11%
LPG	4	4	4	-15%	0%	-3%
BITUMEN	14	13	5	43%	-7%	-59%
Total	**1,641**	**1,634**	**1,606**	**6%**	**0%**	**-2%**

In 2015-16, income from sale of petroleum products decreased due to fall of quantity of sale of some petroleum products and fall of margin earned because of direct product purchase by BPC from government and private fractionation plants.

Jamuna Oil Company Ltd. has investment in MJLBD (19.45%) and Omera Fuels Ltd. (25.0%). The Company earns dividend income from MJLBD's investment and expected to earn dividend from OFL in the coming days.

The Company was enlisted with the DSE and the CSE under direct listing procedure from January 09, 2008. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Apr-17	0.00%	60.08%	22.59%	1.70%	15.63%
31-Dec-16	0.00%	60.08%	23.60%	1.40%	14.92%
30-Jun-16	0.00%	60.08%	25.99%	0.04%	13.89%
31-Dec-15	0.00%	60.08%	24.73%	0.06%	15.13%

Company Fundamentals

Market Cap (BDT mn)	22,780.6
Market weight	0.7%
No. of Share Outstanding (mn)	110.4
Free-float Shares	39.9%
Paid-up Capital (BDT mn)	1,104.2
3-month Average Turnover (BDT mn)	42.6
3-month Return	-3.0%
Current Price (BDT)	206.36
52-week price range (BDT)	173.0 - 227.0
Sector Forward P/E	13.7

	2013-14	**2014-15**	**2015-16**	**2016-17 (9m Ann.)**
Financial Information (BDT mn):				
Net Earnings	1,471	1,733	872	1,160
Operating Profit	1,256	1,395	598	599
Non-Op. Income	2,121	1,990	2,408	2,891
Profit After Tax	2,317	2,253	1,959	2,301
Assets	31,359	41,452	53,855	65,683
Equity	11,898	15,100	15,839	17,546
Margin*:				
Operating Profit	85.4%	80.5%	68.6%	51.6%
Net Profit	157.5%	130.0%	224.7%	198.4%
Growth:				
Net Earnings	4.8%	17.8%	-49.7%	33.0%
Operating Profit	12.5%	11.1%	-57.2%	0.2%
Non-operating Income	18.0%	-6.2%	21.0%	20.0%
Net Profit	16.4%	-2.7%	-13.1%	17.5%
Profitability:				
ROA	8.3%	6.2%	4.1%	3.9%
ROE	21.1%	16.7%	12.7%	13.8%
Dividend History:				
Dividend % (C/B)	90/10	100/-	100/-	-/-
Dividend Yield+	3.6%	5.9%	5.1%	-/-
Dividend Payout	42.9%	49.0%	56.4%	-/-
Valuation:				
Price/Earnings	9.8	10.1	11.6	9.9
Price/BV	1.9	1.5	1.4	1.3
Restated EPS (BDT)	21.0	20.4	17.7	20.8
NAVPS (BDT)	107.8	136.7	143.4	158.9

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

+Dividend yield was calculated on the closing price of record date for the respective dividend entitlement.

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. Therefore, it 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 2015-16, country's sale of petroleum products was 5.26 mn M. Tons decreased by 1.23% 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 mn MT)	2012-13	2013-14	2014-15	2015-16
JET A-1	3.18	3.23	3.39	3.47
HOBC (Octane)	1.11	1.17	1.26	1.48
MS (Motor Spirit)	1.70	1.79	1.67	1.37
SKO (Kerosene)	3.15	2.90	2.63	2.14
HSD (Diesel)	29.65	32.43	33.96	36.06
LDO (Light Diesel Oil)	0.01	0.01	0.03	0.03
JBO (Jute Batching Oil)	0.26	0.24	0.19	0.17
FOHS (Fuel Oil Handling System)	10.76	12.03	9.07	7.12
LUBE	0.16	0.18	0.18	0.17
MTT	0.10	0.08	0.07	0.02
LPG	0.20	0.18	0.17	0.16
BITUMEN	0.58	0.62	0.60	0.36
TOTAL	**50.86**	**54.85**	**53.21**	**52.56**
Growth	**-2.44%**	**7.83%**	**-2.98%**	**-1.23%**

At present, there are 133 Costal Tankers, 14 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 2,042 filling stations, 3,142 agents/distributors, 658 packed point dealers, 3,136 LPG dealers and 108 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 2015-16, Communication sector consumed about 49.78% of total petroleum sale followed by Power (22.84%) and Agriculture (18.02%).

Investment Positives

- **As per nine months (July 2016 - March 2017) financial statements, earnings on petroleum products have increased by 65.82% over the same period of last year. This was due to the re-fixation of the company's margin on the petroleum products with effect from April 25, 2016 by the government** which are as follows: Diesel from BDT 0.25 per Ltr. to BDT 0.50 per Ltr. (100% increased), Kerosene from BDT 0.25 per Ltr. to BDT 0.50 per Ltr. (100% increased), Octane from BDT 0.30 per Ltr. to BDT 0.60 per Ltr. (100% increased), Petrol from BDT 0.30 per Ltr. to BDT 0.60 per Ltr. (100% increased), Farnese Oil from BDT 0.35 per Ltr. to BDT 0.55 per Ltr (57.14% increased).
- Contribution of other operating income i.e. income from product handling commission & others, net profit/(loss) on operation of Tanker MT Jamuna and service charges to total income of the company has been showing an increasing trend over the last few years. The contribution to total operating income and growth of other operating income are shown in the following table:

Amount in BDT mn	2012-13	2013-14	2014-15	2015-16
Product Handling	56	111	210	408
Operation of Tanker MT Jamuna	1	(0)	(2)	(4)
Service Charges	188	205	204	92
Total Other Operating Income	**245**	**316**	**412**	**496**
% of Total Operating Income	15%	18%	19%	36%
Growth	-6%	29%	31%	20%
Total Operating Income	**1,648**	**1,787**	**2,145**	**1,368**

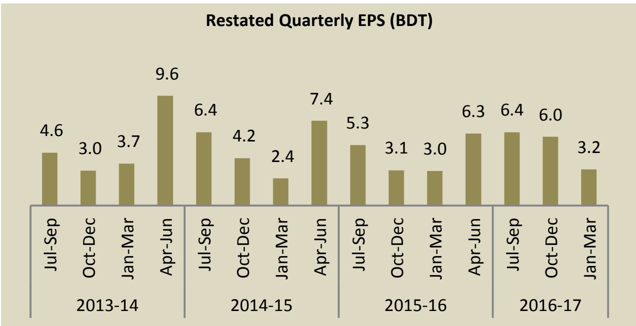
- The Company will have 20% stake on the LPG bottling plant of BPC. This plant will have capacity of 100,000 MT. It will also hold 33% stake on oil installation facility adjacent to Mongla port.
- The Company is constructing storage tanks at Bhairab Bazar Depot, Sylhet Depot and at main installation. The Company is also developing and modernizing the firefighting system at main installation and Fataullah Depot. These all are expected to complete by June 2018.
- The Company is going to construct a 20 storied building at Kawran Bazar and is expecting to complete the construction by June 2019. After completion of construction, profitability of the company will rise through rental income of its floor

space. Besides, the company has planned to undertake a project in company's unused land at Mirpur, Dhaka and Halishahar, Chittagong.

- The Company has been paying lucrative cash dividend over the years.

Investment Negatives

- **The sale of petroleum products decreased by 1.77% in 2015-16 than the same period of previous year. This was because of decreased sale of Petrol due to increase use of Octane in motor vehicles as there was a price cut of octane by the government. Sale of FO decreased as the government allowed the private power plants to import FO at their own arrangements. Sale of SKO is also in decreasing trend as a result of increasing electricity generation and electrification of new areas. In 2015-16, sale of Petrol, FO and SKO decreased by 17%, 31% and 30% respectively.**
- The sale of Lube & Grease, LPG and Bitumen also decreased due to increase of supply of these products by private sector and multinational companies and more price competition.
- Non-Operating income (interest come from SND & FDR) contributed significantly in its earnings. As per nine month of 2016-17, Non-Operating Income was BDT 2,167.9 mn whereas Net Earnings on Petroleum Products was BDT 869.96 mn. Therefore, decline in bank deposit rate will hamper net profit of the Company.
- The company's financial performance is vulnerable to the country's economic cycle, political and business environment and natural calamity.



Source: Annual Reports & ILSL Research

ILSL Research Team:

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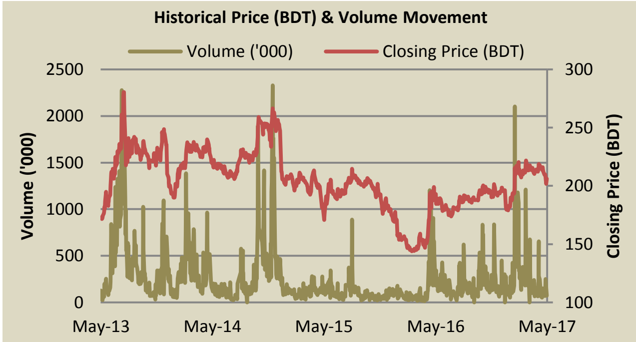
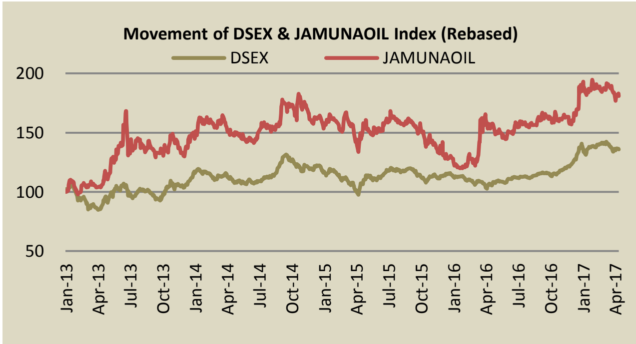


Source: DSE Website & ILSL Research



Source: DSE Website & ILSL Research

Pricing Based on Relative Valuation:

	Multiple	Value
Peer Forward P/E	11.7	243.9
Peer Trailing P/E	12.3	218.2

Note: PADMAOIL & MPETROLEUM has been considered as the peer company for JAMUNAOIL.

Concluding Remark

Jamuna Oil Company Ltd. is one of the three petroleum marketing companies in the country. In its latest nine months financial performance, the Company has reported profit after tax of BDT 1,726 mn registering 36.8% growth over the same period of the previous year. This was because of the increased margin on the petroleum products.

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