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BRAC EPL STOCK BROKERAGE LTD

BRAC EPL Research
Initiation Report
March 27, 2013

Jamuna Oil Company Limited

Fair Value Estimate (Dec 2013): **BDT 250 per share**
Sector: **Fuel & Power**; Rating: **OUTPERFORM**

Company Summary	
52-week Price Range (BDT)	162.00 - 251.00
Current Price BDT (March 25, 2013)	172.70
YTD (2013)	-3.2%
9-month Fair Value (BDT)	**250.00**
Price Return	44.8%
Dividend Yield	3.5%
Total Return	**48.2%**
Number of Shares Mn	91.3
Market Cap BDT Mn	15,760.6
Free Float (%)	39.9%
Average Daily Turnover BDT Mn (LTM)	126.5
Year End	June

Revenue & Profit (BDT Mn)	**2012A**	**2013E**	**2014E**
Net Earnings on Petroleum Products	1,815.2	2,400.6	2,871.1
Operating Income	1,383.1	1,663.8	1,977.9
Net Income	2,079.1	2,372.8	2,639.5

Margin*	**2012A**	**2013E**	**2014E**
Trading profit margin	61.9%	55.8%	56.7%
Operating margin	76.2%	69.3%	68.9%
Net margin	114.5%	98.8%	91.9%

Growth	**2012A**	**2013E**	**2014E**
Top-Line Growth	88.4%	32.3%	19.6%
Trading Profit Growth	213.0%	19.3%	21.5%
Operating Profit Growth	158.7%	20.3%	18.9%
PAT growth	104.9%	14.1%	11.2%

Per Share (BDT)	**2012A**	**2013E**	**2014E**
EPS	22.78	26.00	28.92
DPS	4.50	6.00	8.00
BVPS	53.70	76.24	99.16
NOCF/share	47.83	32.83	39.28

Cash Flow (BDT MM)	**2012A**	**2013E**	**2014E**
Operating	4,364.7	2,996.4	3,584.4
CAPEX	(229.1)	(216.1)	(223.2)
Dividend	(183.1)	(315.9)	(547.6)

Valuation	**2012A**	**2013E**	**2014E**
P/E	7.6x	6.6x	6.0x
P/B	3.2x	2.3x	1.7x
EV/EBITDA	5.1x	4.2x	3.5x

Miscellaneous	**2012A**	**2013E**	**2014E**
ROE	53%	40%	33%
ROA	13%	10%	9%
Debt/Equity	0%	0%	0%
Debt/Asset	0%	0%	0%
Net Debt (BDT MM)	(5,709.7)	(6,174.2)	(6,987.8)
Payout Ratio	15%	23%	28%

Source: Company Data, BRAC EPL Research, March 2013

** Margin ratios based on Net Earnings on Petroleum which the company reports as top-line in the income statement*

Power Sector Consumption to drive Revenue

With the recent development in the power sector, we believe that the shortage of gas supply and absence of other significant energy source, will open door for liquid-fuel based power generation. Although fuel-based power generation is very costly and is usually generated to meet peak demands, there is not much alternative. Already we have seen more than 300% increase in power generation through oil over the last two years and we believe this increasing trend will continue for at least three more years. In particular, with the election to be held in a year's time, electricity generation may well hit record high in 2013. As such all the oil marketing companies will be benefitted from increased usage of furnace oil and diesel for electricity generation.

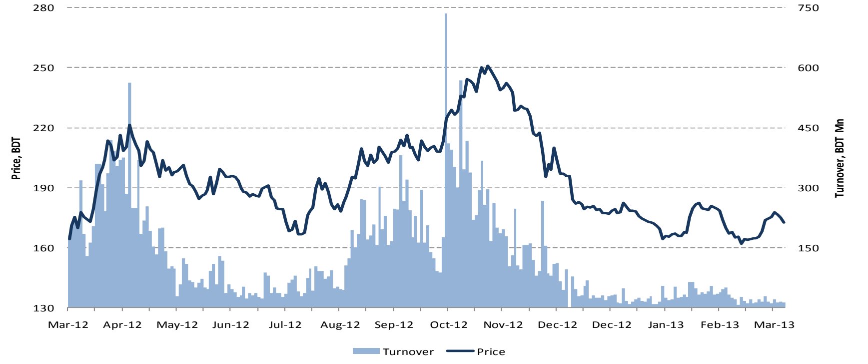
Jamuna Oil Company Limited (JOCL) is one of the three state-owned oil marketing companies, engaged in marketing of petroleum products; the other two being Padma Oil Company Limited and Meghna Petroleum Limited. The commission rate is fixed by the government. The parent company - Bangladesh Petroleum Corporation (BPC) - set aside the market share of the three which is approximately equally distributed among them. Hence there is no direct competition among the three. BPC owns 60% stake of JOCL.

JOCL achieved remarkable growth over the last five years. It achieved top-line CAGR of 23% and bottom-line CAGR of 47% over the last five years. The growth was steeper in the last three years as petroleum product consumption recorded 16.2% annual growth during the period, compared to 4.6% annual growth over the last 10 years. The biggest driver behind such increase in consumption in recent times has been the usage of liquid fuel for power generation. We expect the trend to continue in the next couple of years as well and drive revenue for the oil marketing companies.

Moreover, with gas reserve depleting fast, users of gas for transportation and industries may well shift to petroleum products in the near future. We expect the use of LPG to increase in the longer horizon. Although LPG do not account for a significant portion of total revenue, it may become significant

We initiate coverage of Jamuna Oil Company with a OUTPERFORM rating and a 9-month fair value estimate of BDT 250.00 per share. Our valuation is based on adjusted relative valuation method using P/E multiple of 12.0x. Our fair value implies a trailing P/E multiple of 11.0x over the 2012A EPS. With current market price of BDT 172.70 per share, our fair value will provide a total return of 48.2%, including expected dividend yield of 3.5%

Figure: Price Performance of Jamuna Oil (LTM)



Source: DSE, BRAC EPL Research, March 2013

Company Profile

Jamuna Oil is a state-owned petroleum marketing company, operating for more than four decades

Jamuna Oil Company Limited (JOCL) is a state-owned petroleum marketing company, operating in Bangladesh for more than four decades. Originally the name of company was Pakistan National Oils Ltd which was formed in the year 1964. After Bangladesh's independence in 1971, the company was renamed to Bangladesh National Oils Limited. In 1973 Bangladesh National Oils Limited was finally renamed to Jamuna Oil Company Limited and registered as a Private Limited Company on 12th May, 1975. It has been functioning as a subsidiary of Bangladesh Petroleum Corporation (BPC) since 1977. In 1986, JOCL also acquired all the properties, rights, interests, and assets of Indo-Burmah Petroleum Company Limited (IBPCL), another subsidiary of BPC.

Jamuna Oil has market cap of over USD 200 m with 40% free float; BPC holds the remaining 60%

JOCL was converted into a Public Limited Company on 25th June, 2007, with subsequent listing in Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on 9th January, 2008. The parent company owns 60.1% stake at JOCL with general public holding 20.7% stake and Institutional investors grabbing the remaining 19.2%. At present JOCL have paid-up capital of BDT 912.6 million and authorized share capital of BDT 3.0 billion. At the end of February 2013, the market capitalization of Jamuna Oil Ltd was BDT 16.3 billion (USD 203.6 million). The accounting year of the company ends on June.

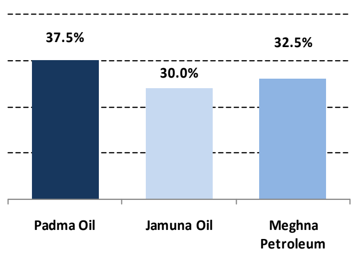
Company Operation

JOCL is engaged in distribution and marketing of various petroleum products and also bitumen, lubricants and LP Gas

The main operation of the company includes storing, distributing and marketing of various petroleum products, bitumen, lubricants and liquefied petroleum gas (LPG). The main installation plant is located at Patenga, Chittagong while another 16 depots are located across the country. The company headquarter is also located at Chittagong with divisional offices at Dhaka, Khulna and Bogra. JOCL markets finish products from Eastern Refinery Ltd and LP Gas Ltd (and from other LPG plants also) and also imported finished products (of BPC) through 421 Filling Stations, 713 Distributors Point, 182 Packed Point Dealers and 792 LPG Dealers. Besides, the company also delivers products directly to industries and power plants.

Oil Distribution Market

Chart 1: Average market share



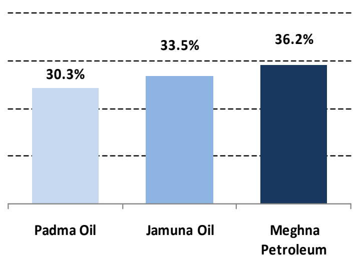
Source: BPC, Company Data, BRAC EPL Research, March 2013

Meghna Petroleum Limited (MPL) and Padma Oil Company Limited (POCL) are the other two state-owned companies that are also marketing petroleum products under discretion of BPC. Total market of the country is almost equally shared geographically by each of the three companies; however, the market share varies slightly due to focus on respective products and usage on respective regions. For FY'12, Jamuna Oil handled 32.3% of total petroleum product sale – 1,685,286 MT out of total 5,213,646 MT of petroleum products. Jamuna's market share has steadily increased over the years, from 28.4% in FY'06 to current 32.3% in FY'12. Chart 1 shows the average market share of the three Oil Distribution Companies (ODCs) from FY'07 to FY'11. POCL holds the highest market share of 37.5%.

MPL and POCL are the two other oil distribution companies operating in the country; POCL has the highest market share while JOCL has the lowest

As shown in table 1, the market share varies as per product category. JOCL enjoys one third market for Diesel (HSD), the largest revenue driver over the decades (although contribution of HSD to total revenue went down to 28.4% in FY'12, it averaged over 39.1% in the previous seven years). Among the major category of products (in terms of volume), JOCL enjoyed highest market share for furnace oil (FO) - 41.4% - accounting for 14.1% of total revenue in FY'12. The

Chart 2: Average adjusted market share



Source: BPC, Company Data, BRAC EPL Research, March 2013

Table 1: Product wise market share of Jamuna Oil for FY'12

	Total Unit Consumption	Growth in FY'12	Jamuna Oil	Market Share	Contribution to Revenue
JET A-1	311,890	-7.1%	0	0.0%	0.0%
HOBC (Octane)	107,150	10.2%	29,441	27.5%	0.9%
MS (Petrol)	158,707	12.2%	50,538	31.8%	34.4%
SKO (Kerosene)	358,436	-9.8%	125,460	35.0%	9.5%
HSD (Diesel)	3,240,349	0.0%	1,080,083	33.3%	28.4%
LDO	419	-8.9%	0	0.0%	0.0%
FO (Furnace Oil)	883,735	62.3%	365,878	41.4%	14.1%
JBO	25,761	10.8%	7,267	28.2%	0.2%
Lubricants & Grease	17,521	-2.4%	4,902	28.0%	11.9%
SBP	719	3.5%	0	0.0%	0.0%
MTT	7,900	7.2%	0	0.0%	0.0%
LPG	20,729	-2.7%	4,931	23.8%	0.3%
Bitumen	80,330	94.0%	16,785	20.9%	0.3%
Total:	**5,213,646**	7.1%	**1,685,286**	**32.3%**	100.0%

Source: Company Data, BRAC EPL Research, March 2013

lowest market share was for Octane (HOBC) - 27.5% - however, it accounts for less than 1% of the revenue.

Unlike POCL, JOCL and MPL are not involved in handling Jet Oil and MTT, for which the market share is actually lower for JOCL and MPL. Chart 2 shows the adjusted average market share (discarding Jet Oil and MTT) from FY'07 to FY'11; MPL holds the highest market share of 36.2%.

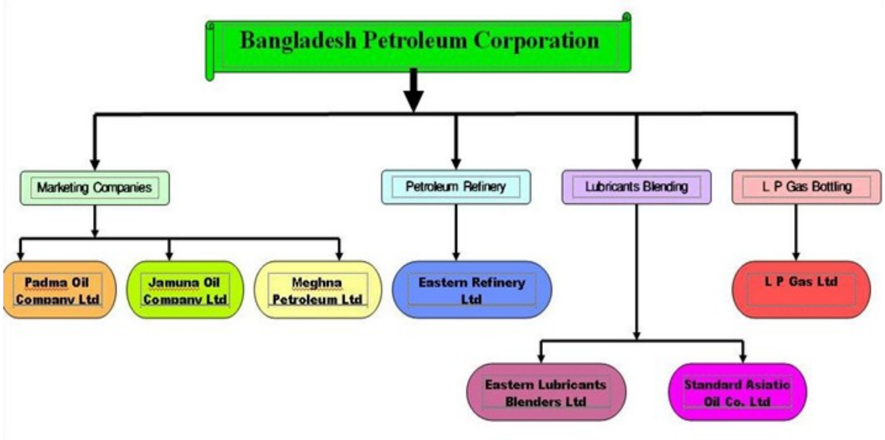
Role of BPC and it Subsidiaries

BPC is a government-owned company, which controls and operates in the entire chain of importing, refining, marketing & distributing all petroleum products

Bangladesh Petroleum Corporation is a government-owned company, operating in a monopoly business in Bangladesh, dealing in importing of crude oil and refined oil and lubricant, refining of crude oil, and distributing and marketing of fuel oils, lubricants and other petroleum products in the country. In short, they control and operate the entire chain in the country as shown in chart 3.

Eastern Refinery Ltd is engaged in processing of crude oil imported by BPC. It currently produces 16 petroleum products, all of which (the final products) are distributed by the ODCs. Currently the company meets about 30%-40% of total petroleum consumption of the country while the remainder is imported.

Chart 3: BPC and its Subsidiaries



Source: Company Data, BRAC EPL Research, March 2013

LP Gas Ltd was formed to engage in bottling of LPG and supplying it throughout the country as an alternative fuel to firewood and kerosene. The company has two plants, located at Chittagong and Sylhet, with combined annual capacity of 17,000 metric tonnes per shift. However, because of the high demand of LPG gas usage, the company is running well beyond the capacity, operating in multiple shifts. Currently they meet about 15%-20% demand of the country while the remainder is met by other private companies. The finished product is once again marketed mostly by the ODCs.

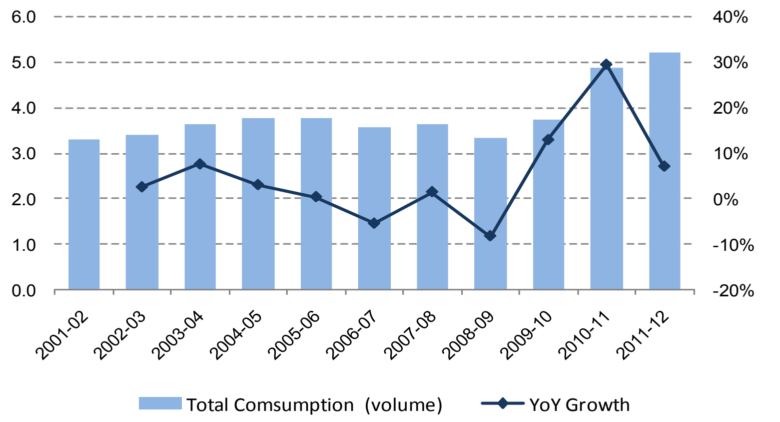
Eastern Lubricants Blenders Ltd (ELBL) is engaged in blending of lubricants as per the requirement of the three ODCs. Standard Asiatic Oil Company Ltd (SAOCL) is also engaged in blending lubricants for the Oil Marketing Companies. However, unlike ELBL, SAOCL is engaged in limited marketing of their finished products.

Petroleum Product Consumption

Petroleum product consumption in Bangladesh has steadily increased over the years as shown in Chart 4 below. In FY'12, total petroleum product consumption increased by 7.1% to reach 5.2 million MT. Over the last decade, total volume consumed increased 4.6% annually; with the exception of FY'07 and FY'09 there has been positive growth in consumption every year.

Over the last decade total volume consumption of petroleum product increased 4.6% annually

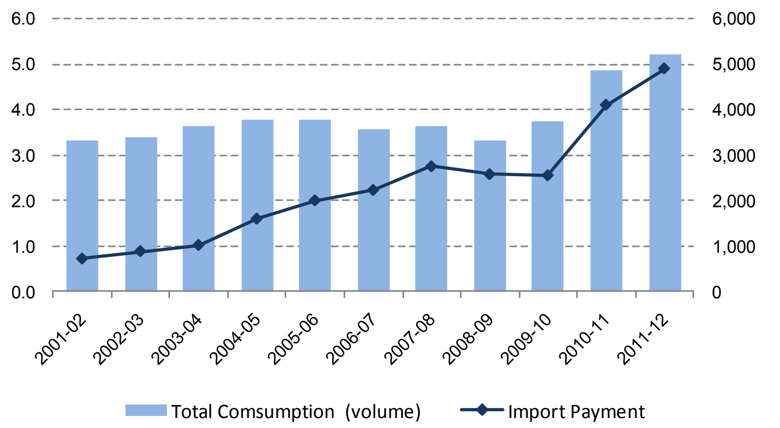
Chart 4: Petroleum Product Consumption and Growth



Source: BPC, BRAC EPL Research, March 2013

Import value, on average, went up by 21.1% per year over the last ten years; with BDT depreciating against USD, actual payment increased 25.1%, on average, each year

Chart 5: Petroleum Product Consumption and Import Payment



Source: BPC, Bangladesh Bank, BRAC EPL Research, March 2013

Almost all the petroleum products are imported in Bangladesh. As a result, the total cost is exposed to international price volatility as well as exchange rate movement. Bangladesh imported petroleum product (including crude oil) worth BDT 388.7 billion in FY'12. In terms of dollar value, the import value reached USD 4.9 billion in FY'12 – on average the import value went up by 21.1% each year. With BDT depreciating against USD, the import payment actually increased 25.1% every year.

Increased Consumption in Recent Time

Petroleum product consumption increased manifold in the last three years, with CAGR of 16.2%

Furnace Oil usage skyrocketed with 437% increase in last three years

Petroleum product sale has increased significantly in recent years. Over the last three years, CAGR has been 16.2% with 1.9 million MT increase in sale volume, 87.9% of which came from Diesel and Furnace Oil alone. In particular, FO consumption has skyrocketed with 437.3% increase in FO sale in last three years. This was mainly due to sharp rise in fuel consumption in the power plants – a number of companies were given licenses to operate quick rental power plants which are mostly run by FO (and some by Diesel). Table 2 shows segment wise consumption of petroleum products from FY'07 to FY'11. Consumption pattern was relatively steady over FY'07 to FY'10 but changed remarkably in FY'11. Consumption in Power sector jumped 4.3 times (*YoY*) in FY'11 alone; consumption % in power went up from 5.8% in FY'10 to 19.1% in FY'11. There was steady growth in consumption for Agriculture and Communication purpose with CAGR of 8.6% and 3.0% respectively over FY'07-FY'11.

Table 2: Sector wise Consumption (FY'07-FY'11)

	Agriculture	Industry	Power	Communication	Domestic & Others
FY-07	20.2%	4.1%	7.1%	54.2%	14.4%
FY-08	19.4%	4.2%	7.3%	56.3%	12.8%
FY-09	23.9%	3.8%	7.7%	53.1%	11.6%
FY-10	24.2%	4.7%	5.8%	54.0%	11.3%
FY-11	20.6%	6.0%	19.1%	44.9%	9.3%
Growth in FY'11	**10.4%**	**65.5%**	**330.3%**	**7.7%**	**6.6%**
CAGR	**8.6%**	**19.3%**	**38.4%**	**3.0%**	**-3.0%**

Source: BPC, BRAC EPL Research, March 2013

Table 3 shows the CAGR growth in sale of different petroleum products over the last three years and ten years. A quick look at the table reveals a similar pattern with most of the products. Consumption has increased significantly in the last three years (FY'09 - FY'12) compared to 10 year average.

Table 3: CAGR Growth for different products (3 years and 10 years):

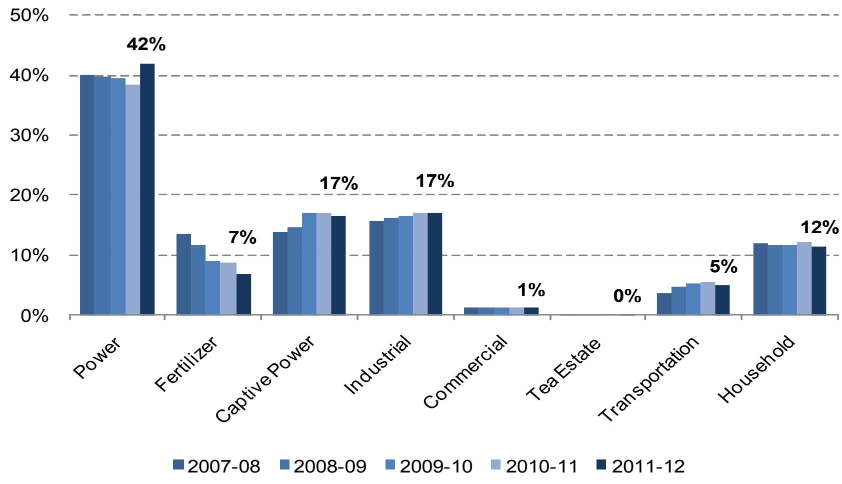
Products	3-Year	10-Year
JET A-1	7.1%	5.9%
HOBC (Octane)	11.0%	-1.2%
MS (Petrol)	11.2%	-1.7%
SKO (Kerosene)	1.5%	-5.5%
HSD (Diesel)	12.1%	5.8%
LDO	22.8%	-8.6%
FO (Furnace Oil)	75.1%	14.7%
JBO	18.4%	3.6%
LUBE	5.3%	-3.9%
SBP	-4.5%	13.4%
MTT	28.7%	3.8%
LPG	25.2%	0.3%
BITUMEN	47.8%	2.1%
TOTAL	16.2%	4.6%

Source: BPC, BRAC EPL Research, March 2013

One major reason of the consumption pattern was the emergence and popularity of Compressed Natural Gas (CNG) as an alternative to regular petroleum products. Because of the lower price, a big chunk of automobiles converted into CNG-run vehicles and many industries began operating on gas-based captive power plants which lowered the consumption of petroleum products. From FY'02 to FY'09 (in seven years), total consumption of Octane, Petrol, Kerosene and Furnace Oil declined 35.0%, 38.6%, 45.9% and 26.4% respectively. Among the popular products, only Diesel recorded 25.2% increase in consumption over that period.

However, availability of gas has become an issue for some years. Based on the current consumption of gas (0.7 TCF in FY'12), the proven reserve will last only 23 years (with estimated remaining reserve of 16.0 TCF). However, the gas consumption is likely to increase in coming years and the proven reserve may well be around 10.0 TCF in reality. Given this, we may run out of gas in less than

Chart 6: Gas Consumption in different Sectors



Source: Company Data, BRAC EPL Research, March 2013

With gas reserve running low, dependence on petroleum products will increase

14 years. We have already seen a rising trend in petroleum product consumption in recent years. Because of the shortage of gas reserve, users of gas in certain sectors will directly switch to petroleum products in the future. Chart 6 shows the current consumption pattern of gas in Bangladesh over the last five years. Users of gas for Transportation will definitely start consuming oil while other sectors will also rely on petroleum product, at least in the short run.

More liquid fuel will be needed each year to generate electricity, which will drive revenues for the oil marketing companies

In particular, Power sector will consume more furnace oil and diesel with natural gas running in short supply. Furnace Oil consumption went up from 194,165 MT in FY'10 to 883,735 MT in FY'12. For the current fiscal year, it is projected to be over 1.2 million MT, to be (approximately) equally shared by the three marketing companies.

Electricity Generation Scenario

In FY'12, 16.1% of total electricity was generated using oil, compared to 4.8% in FY'10

In FY'12, total electricity generation was 35,118 GWH (Giga Watt Hour), 12.0% more than that in FY'11. Out of the total, 16.1% electricity, equivalent to 5,665 GWH, was generated using furnace oil and diesel. Their contribution was a meager 4.8% in FY'10 when only 1,392 GWH was generated using the two liquid fuel. Currently the total generation capacity is 8,525 MW as on 2012 with oil accounting for 2,375 MW (27.9%). Actual oil-based power generation is lower than the available capacity because it is only used to meet peak demands (because of the higher cost associated with it).

As per the Power Sector Master Plan (PSMP), the total generation capacity will be more than double within five years time - from 8,525 MW in 2012 to 19,701 MW in 2017. It is forecasted that 13.4% of the capacity (2,646 MW) will be provided by oil-based power plants by that time. In terms of quantity, oil-based power generation capacity is estimated to peak in 2015, with 3,578 MW capacity.

Table 4: Electricity generation cost per unit (approximate):

Energy Source	Generation Cost
Natural Gas	1.50
Coal	4.00
Imported Coal	6.00
Furnace Oil	14.00
Diesel	18.00

Source: BRAC EPL Research, March 2013

Since the cost of producing electricity with fuel is a lot more (as shown in table 4), PSMP suggested to lower dependency once alternate energy source is developed. "Coal" has been identified as the prime source of energy for the Power sector in the longer horizon, but so far there has been little development in building infrastructure for coal usage. If we also consider that the gas reserve is going to be depleted soon, it is very much likely that the dependency on fuel may well continue beyond 2015.

Either ways, we expect the high growth of oil consumption for power generation to continue for at least three more years. In the longer run when coal-fired power plants are installed to mass scale, dependence on liquid fuel will become steady and may even post negative growth. The pay-off of running power plants using furnace oil/diesel is very high electricity generation cost.

Commission Rate for Oil Marketing Companies

Table 5: Commission Rates

Products	Previous	New
Petrol	0.27	0.30
Octane	0.27	0.30
Diesel	0.20	0.25
Kerosene	0.20	0.25
Furnace Oil	0.27	0.27

Source: BPC, BRAC EPL Research, March 2013

Government fixes the commission rate for the oil marketing companies and recently there has been a hike in the rates. Government increased the rates, ranging from 11%-25%, for several categories of products at the beginning of the year. The new commission rates will be effective from February 1, 2013. As a result, all the oil market companies are likely to report good top-line and bottom-line numbers in the second half of FY'13. Increase in commission rate for Diesel will have the biggest impact for these companies as Diesel is the major contributor to the top-line numbers.

Jamuna Oil: Operating Performance

Margins have soared in recent years with most of them hitting high in 2012; Net Income Margin was more than 100% based on net earnings reported as top-line for JOCL

Jamuna Oil reports only Net Earnings on Petroleum Products in their income statement, which is after adjusting for Packing Charges, Handling Charges, Operational Gain/Loss and other expenses (none of which are reported in the statements). As such detail analysis of their net receipts is not possible. The Trading Profit margin and the Operating margin have skyrocketed in recent years due to increase in consumption of petroleum products. Total quantity of petroleum products handled increased 73.0% over the last three years. As a result Trading Profit margin and Operating Margin reached 61.9% and 76.2% in 2012. Higher other income in 2012, which mainly includes interest earned from bank deposits, also meant that Net Income margin went over 100%. *(All margin ratios based on Net Earnings)*

Since the company reports net earnings, the more quantity the company handles the higher the margins are likely to be. We have been conservative on assuming similar margin levels in coming years, which may increase with volume. We assumed volume growth will be in double-digits in coming years, most of which will result from increased consumption in the Power sector.

Based on our expectation that more electricity will be generated using liquid fuel rather than gas, we assumed that furnace oil consumption will continue to rise steeply. Once alternative power generation sources are developed (which is likely to be coal), dependency on furnace oil will go down; however, we do not expect that to occur in the next three to five years. We also expect that there will be stable growth in petroleum consumption in other sectors - Agriculture, Industry, Communication, Domestic and others. Excluding Power sector usage, consumption recorded 4.3% annual growth in FY'07-FY'11 period. However, with gas reserve nearing depletion, petroleum product consumption in coming years will be more than the historical growth.

Table 6: Historical and Forecasted Margin Ratios

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Trading Profit Margin	22.9%	42.0%	51.4%	21.2%	31.1%	37.2%	61.9%	55.8%	56.7%	57.5%	57.3%	57.3%
Operating Margin	37.5%	53.9%	61.3%	28.8%	40.3%	55.5%	76.2%	69.3%	68.9%	68.5%	68.3%	68.3%
Net Income Margin	30.2%	46.0%	62.0%	77.7%	85.4%	105.3%	114.5%	98.8%	91.9%	92.1%	94.1%	95.7%
Other Income to Earnings	13.3%	21.5%	22.2%	74.0%	73.5%	84.4%	75.6%	62.5%	53.7%	54.4%	57.2%	59.4%
EBIT Margin	37.5%	53.9%	61.3%	28.8%	40.3%	55.5%	76.2%	69.3%	68.9%	68.5%	68.3%	68.3%
EBITDA Margin	41.5%	57.0%	63.9%	33.3%	44.1%	58.3%	78.0%	71.6%	71.5%	71.2%	71.2%	71.3%

Source: Annual Report, BRAC EPL Research, March 2013

Table 7: Historical and Forecasted Growths

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Revenue	55.3%	34.4%	25.3%	-34.5%	22.3%	46.0%	88.4%	32.3%	19.6%	14.4%	12.3%	12.3%
Volume	NA	-1.1%	0.7%	-9.0%	11.2%	36.8%	13.7%	15.0%	15.0%	10.0%	8.0%	8.0%
Trading Profit	905.1%	146.9%	53.5%	-73.0%	79.0%	75.0%	213.0%	19.3%	21.5%	16.0%	12.0%	12.3%
Operating Profit	1548.1%	93.5%	42.4%	-69.2%	70.9%	101.2%	158.7%	20.3%	18.9%	13.7%	12.1%	12.3%
Earning	5061.1%	104.6%	68.9%	-18.0%	34.6%	79.8%	104.9%	14.1%	11.2%	14.7%	14.7%	14.3%

Source: Annual Report, BRAC EPL Research, March 2013

JOCL achieved top-line CAGR of 22.5% and bottom-line CAGR of 47.0% over the last five years; we projected the top-line to grow at ~18% over the next five years

We assumed JOCL will achieve about 18.0% annual growth in net earnings (top-line) in the next five years. Historical CAGR has been 22.5% over the last five years (FY'08-FY'12) and 19.1% over the last ten years (FY'03-FY'12). We have been conservative also in projecting other income and expenditures in the financial statement. We forecasted 13.8% growth in Net Profit after Tax (NPAT) over the next five years. CARG growth of NPAT is 47.0% over the last five years and 36.7% over the last ten years.

Non-operating income

NOI, which is mainly interest earned on Bank deposits and Fixed deposits, averaged 54.7% of PBT over the last five years

JOCL has significant non-operating income (NOI) in their income statement which is mainly comprised of interest earned from bank deposit, including fixed deposits. NOI averaged 54.7% of profit-before-tax (PBT) over the last five years; it helped the bottom-line to increase more than the top-line - 47.0% CAGR in NPAT for last five years against 22.5% CAGR in Net Earnings. Jamuna Oil also receives cash dividend from investment in MJL Bangladesh Limited, a listed company.

ROA and ROE

Both ROE and ROA increased steeply in 2012 due to record profit in the year. JOCL reported ROE of 52.7% and ROA of 12.8% last year. However, the profitability ratios averaged 37.8% and 7.1% respectively over the last five years. In absence of any new competition, we expect the profitability ratios to sustain in the coming years.

Investment in Other Companies

JOCL has 19.45% stake at MJL Bangladesh Ltd and 25% stake at Omera Fuels Ltd

Jamuna Oil invested BDT 87.7million each in MJL Bangladesh Ltd (DSE: MJLBD) and Omera Fuels Limited (OFL), representing 19.5% and 25.0% holding respectively. Initially JOCL had 25.0% stake at MJLBD; however following additional share offloading during MJLBD's IPO in 2011, JOCL's ownership was diluted to 19.5%.

MJLBD has achieved good growth in recent years; they are spreading the business to other avenues to drive future revenue. OFL is yet to commence operation

MJL Bangladesh is engaged in blending and marketing of lubricants and greases. It holds the top market share (more than 30%) in lubricats market and their brand, Mobil, is the most popular brand in the industry. MJLBD achieved 26.7%Revenue growth and 25.2% earnings growth annually over the last four years (2007-2011). JOCL has been receiving dividend from MJLBD – they received BDT 52.6 million and BDT 60.5 million cash dividend respectively for the year 2010 and 2011 (MJLBD's year end is on December). The company spread its business into freight market in 2011 as they procured an Oil-Tanker for transportation of crude oil. Moreover, the company is also setting up an LPG plant with annual capacity of 50,000 MT, the operation of which is expected to commence in 2014. The other company – OFL, previously known as Mobil Jamuna Fuels Ltd (MJFL), has not yet commenced commercial activities.

Current market value of the JOCL's investment in MJLBD is BDT 3.3 billion

With MJLBD shares listed in the stock exchange, the investment value of JOCL (at market price) has increased manifold. At present, total market value of JOCL's 19.5% investment in MJLBD equals BDT 3.3 billion (as on March 25, 2013), 37 times the value of the initial investment of BDT 87.7 million, and representing unrealized capital gain of about BDT 3.2 billion. With the stock market being volatile in the past two years, the market value of the investment reached a peak of BDT 6.8 billion and a low of BDT 2.5 billion over the period.

As on Sep'2012, the total book value of JOCL's investment in MJLBD is BDT 1.4 billion against JOCL's initial investment of BDT 87.7 million.

However, Jamuna Oil has been recording the investment on cost basis. They are only recording their share of dividend income earned in the income statement and thus understating the value of their investment in their books of account. The immediate impact is understating total asset value and total equity in Balance Sheet, resulting into ROA and ROE being overstated. Based on 3Q'2012 statement of MJLBD (as on Sep'2012) the total equity value of MJLBD is BDT 7.2 billion with JOCL's share of book value being BDT 1.4 billion (against cost value of BDT 87.7 million).

2012 Earnings Announcement of MJLBD

The company today (March 27, 2013) announced BDT 651.0 million NPAT for the year ended December 2012. The company also declared 25% cash dividend, equivalent to BDT 2.50 per share. As per 19.5% ownership of MJLBD, Jamuna Oil is entitled to receive BDT 116.0 million cash dividend which will be recognized in the income statement of JOCL for the year ending June 2013.

Cash and Investment

Cash and Investment totaled BDT 11.9 billion as on Dec'2012 - which is more than 70% of total market capitalization of JOCL

Jamuna Oil has significant cash holdings in their balance sheet. Based on Half-Year result, ended on December 2012, Cash balance totaled BDT 9.0 billion while Investment value (including fixed deposits) was BDT 3.0 billion. Cash and Investment value is more than 70.0% of the total market capitalization of the company. However, JOCL has also got significant amount of Creditors in the balance sheet; considering net current assets (Inventory + Receivables + Advances - Creditors), total Cash, Investment and Net Asset is about 33.0% of total market capitalization.

CAPEX and Capacity

CAPEX to Net Earnings averaged 7.6% over the last seven years, with 12.6% in 2012. We assumed the CAPEX will remain at similar level; our forecasted CAPEX is 7.9% of Net Earnings over the next five years.

JOCL has already planned to increase storage capacity to meet increased demand

At present, Jamuna Oil has storage capacity of 132,948 MT located at various depots across the country. The company has already taken initiative to increase the capacity in view of higher demand in the coming years. They have recently bought land at several districts and started setting up fuel storage tanks and reservoirs over there.

The parent company, BPC, is planning to install a LPG bottling plant having capacity of 100,000 MT per annum and Oil Installation at Mongla in collaboration with its subsidiary companies. All the oil marketing companies, including JOCL, will be benefitted from this investment. Moreover, with natural gas reserve depleting, LPG usage is likely to increase manifold in the future (beyond ten years or more). The associate company - MJL Bangladesh - is also setting up a LPG bottling plant with 50,000 MT annual capacity. JOCL, with 19.5% ownership of MJLBD, will directly benefit from that project.

Risks and Challenges

The biggest risk for JOCL (and also for MPL and POCL) is the lack of power in fixing the commission rates, which is solely fixed by the government. However, JOCL is already earning good margins and chances of it shrinking is very low.

Some of the other risks and challenges are:

• Financial reporting structure is not the best for JOCL and detail analysis, especially for forecasting the top-line, is very difficult and challenging with limited data. *(Hence we have been very conservative in forecasting)*

• Importation of fuel is necessary in absence of alternative domestic source. However, it also puts pressure on Foreign Exchange (FX) reserve; in case the FX reserve is running low, total import as a whole might slow down.

• Fuel based electricity generation is expensive; it is not sustainable in the longer run. It is likely that beyond 5-10 years, minimal electricity will be generated using Furnace Oil and Diesel and hence growth for furnace oil consumption may slow down or even be negative.

• JOCL faces competition directly with private companies and multinational companies in marketing of other products - lubricating oil, bitumen and LPG.

Valuation Method

We have used relative valuation (Price/Earnings multiple based) in deriving the fair value of the Jamuna Oil Company Limited. However, because of the high proportion of non-operating income in profit-before-tax (PBT), we had to adjust the earnings for valuation purpose. We calculated adjusted EPS based on operating earnings only, and used the adjusted EPS to derive the value of the stock, which is based on normal operation of the company. With the calculated value, we added cash holdings, investment value and net current asset (inventory + receivables + advanced - creditors) to find out the fair value of the stock.

Using adjusted relative valuation, we estimated a fair value of BDT 250 per share as on December 2013; the current market price will provide 48.2% total return in nine months, including 3.5% dividend yield

Based on average of 2013E and 2014E operating earnings and a trailing P/E multiple of 12.0x, we estimated a fair value of **BDT 250.00 per share as on December 2013**.

At present the trailing P/E multiple of the Fuel & Power sector at DSE is 10.4x, while the P/E multiple of the Oil Distribution Companies is 9.2x (and 10.3x excluding Jamuna Oil), as shown in Table 10. However, the historical average trailing P/E multiple of JOCL is very high - 19.3x over the last five years, as shown in chart 7 on the following page. In valuing the stock we considered the current market P/E of DSE (which is about 12.5x) and also the growth prospect of the company in coming years.

Table 8: Relative Valuation

Total Operating Earnings*	1,820.9
Effective Tax Rate	25%
After Tax Earnings	1,365.6
Trailing Trading Multiple	**12.0x**
Total Value	16,387.7
Investments and Cash Balance	11,017.0
CA (ex Cash) less Creditors	(4,441.1)
Total Equity Value	22,963.6
Value per share	251.63
Adjustment	(1.63)
Fair Value Estimate	**250.00**

**Average of 2013E and 2014E operating income*

Source: BRAC EPL Research, March 2013

Table 9: Fair Value and Return

Fair Value (at Dec 2013)	**250.00**
Current Market Price (Mar 25, 2013)	172.70
Price Return	***44.8%***
Cash Dividend per share	6.00
Dividend Yield	***3.5%***
Total Return	**48.2%**

Source: BRAC EPL Research, March 2013

Table 10: Comparative companies

Companies	Market Price (BDT)	EPS (BDT)	P/E	BVPS (BDT)	P/B	MCAP (BDT MM)
MPETROLEUM	166.90	16.96	9.8x	43.94	3.8x	13,682.8
PADMAOIL	176.60	16.38	10.8x	48.49	3.6x	15,770.8
JAMUNAOIL	172.70	22.78	7.6x	53.70	3.2x	15,760.6
MCAP Weighted Average			9.2x		3.5x	
Average Excluding JOCL			**10.3x**		**3.7x**	

** EPS figures based on last audited reports for 2012; Price as on March 25, 2013*
Source: DSE, BRAC EPL Research, March 2013

Chart 7: Trailing PE band of Jamuna Oil

Source: BRAC EPL Research, March 2013

Our estimated fair price implies a trailing P/E multiple of ***11.0x*** over 2012 actual earnings. With current price of BDT 172.70 per share (as on March 25, 2013), the fair price implies 44.8% price return in the next nine months. Dividend for 2013 is projected at BDT 6.00 per share, which will provide 3.5% dividend yield at the current market price. Combining the two, the total return is expected to be 48.2% in the next nine months.

Valuation of Investment

In valuing the stock we considered the cost value of investment. As stated earlier, MJLBD is a listed company; based on the current market price of MJLBD (as on March 25, 2013), JOCL's investment in the company is valued at BDT 3.3 billion against only BDT 87.7 million investment. Capital gain based on the current market price is about BDT 3.2 billion, representing per share gain of BDT 34.82. Based on the latest available book value of MJBBD, as on September 2012, JOCL's stake is valued at BDT 1.4 billion, representing per share gain of BDT 14.21.

Table 11: Valuation with Capital Gain

	Fair Value
FV as on Dec'13 with Investment valued at Cost	250.00
Incremental FV with Investment valued at Market	34.82
Incremental FV with Investment valued at Book Value	14.21

Source: BRAC EPL Research, March 2013

Price Performance of JOCL

Chart 8 on the following page (and also the chart in the first page) shows the price movement and turnover value of JOCL over the last twelve months. Chart 9, also on page 13, shows the price performance of JOCL relative to DGEN. Table 12 lists return JOCL has provided over the years.

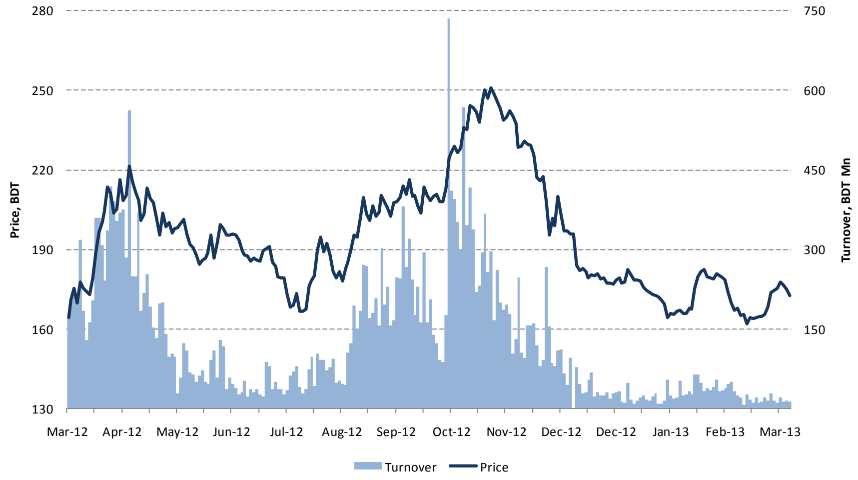
Since its inception of trading in 2008, JOCL has outperformed the market in most years. More importantly, the stock has outperformed the market in recent times when the market is going through an extended correction phase. In particular, JOCL gained 29.5% in 2012 while the market lost 19.7%. Since the end of 2010, JOCL is up by 4.5% while DGEN is down by 53.9%. During the same period the stock also provided 4.0% dividend yield. In 2013, the stock lost 3.2% only as on March 25, 2013, while the broad market is down by 9.5%.

Table 12: Price Performance

	JOCL	DGEN
2009	217.1%	62.3%
2010	-26.2%	82.8%
2011	-16.6%	-36.6%
2012	29.5%	-19.7%
2013 (YTD)	-3.2%	-9.5%

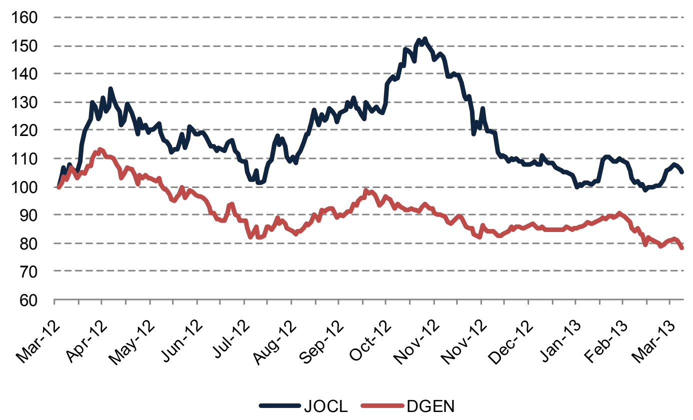
Source: BRAC EPL Research, March 2013

Chart 8: Price and Turnover of JOCL (LTM)



Source: DSE, BRAC EPL Research, March 2013

Chart 9: Relative Performance of JOCL and DGEN



Source: DSE, BRAC EPL Research, March 2013

Upcoming Events

3Q'2013 of Jamuna Oil ends on March 2013 and financial statements are due within April 2013. Full year of the company ends on June 2013; earnings and dividend for 2013 expected to be declared within October 2013.

Income Statement

		2010A	2011A	2012A	2013E	2014E	2015E
Net Earnings on Petroleum Products	BDT m	660.1	963.7	1,815.2	2,400.6	2,871.1	3,284.6
Operating Expenses	BDT m	(455.0)	(604.8)	(691.8)	(1,060.9)	(1,243.5)	(1,397.3)
Trading Profit on Petroleum Products	BDT m	**205.1**	**358.9**	**1,123.4**	**1,339.7**	**1,627.6**	**1,887.3**
Other Operating Income	BDT m	60.7	175.8	259.8	324.1	350.3	361.3
Operating Profit	BDT m	**265.8**	**534.7**	**1,383.1**	**1,663.8**	**1,977.9**	**2,248.6**
Other Income	BDT m	485.4	813.4	1,372.6	1,500.0	1,541.5	1,787.0
PBT	BDT m	**751.2**	**1,348.0**	**2,755.8**	**3,163.8**	**3,519.4**	**4,035.6**
Provision for Taxation	BDT m	(187.1)	(333.6)	(676.7)	(790.9)	(879.8)	(1,008.9)
PAT	BDT m	**564.1**	**1,014.5**	**2,079.1**	**2,372.8**	**2,639.5**	**3,026.7**
EBIT (Operating)	BDT m	265.8	534.7	1,383.1	1,663.8	1,977.9	2,248.6
EBITDA	BDT m	291.2	561.4	1,416.6	1,717.8	2,052.3	2,339.4
Number of shares MM	-	45.0	54.0	70.2	91.3	91.3	91.3
Basic EPS	BDT	12.53	18.79	29.62	26.00	28.92	33.17
Re-stated EPS	BDT	6.18	11.12	22.78	26.00	28.92	33.17
DPS	BDT	3.00	3.00	4.50	6.00	8.00	10.00
Pay-out Ratio	%	**24%**	**16%**	**15%**	**23%**	**28%**	**30%**

Source: Company Data, BRAC EPL Research, March 2013

Cash Flow Statement

Operating Cash Flow		2010A	2011A	2012A	2013E	2014E	2015E
Net Income	BDT m				2,372.8	2,639.5	3,026.7
Add back non cash expense	BDT m				54.0	74.4	90.8
Change in working capital	BDT m				569.5	870.5	764.9
Cash Flow from operations	BDT m	1,815.8	1,503.1	4,364.7	2,996.4	3,584.4	3,882.3
Investing Activity							
CAPEX	BDT m				(216.1)	(223.2)	(227.0)
Investment in FDR	BDT m				(2,000.0)	(2,000.0)	(2,000.0)
Cash Flow from Investing	BDT m	(29.8)	(79.9)	(2,896.6)	(2,216.1)	(2,223.2)	(2,227.0)
Financing Acitivity							
Increase/(reduction) in debt	BDT m				-	-	-
Dividend Paid	BDT m				(315.9)	(547.6)	(730.1)
Cash flow from Financing	BDT m	(176.1)	(133.4)	(183.1)	(315.9)	(547.6)	(730.1)
Net cash	BDT m	1,610	1,290	1,285	464	814	925
Beginning Balance	BDT m	1,525	3,135	4,425	5,710	6,174	6,988
Cash in Hand	BDT m	3,135	4,425	5,710	6,174	6,988	7,913
Operating Cash Flow per share	BDT	19.90	16.47	47.83	32.83	39.28	42.54

Source: Company Data, BRAC EPL Research, March 2013

Balance Sheet

MM BDT	2008A	2009A	2010A	2011E	2012E	2013E
Non-current Assets						
PPE (including Capital WIP)	264.6	318.8	514.5	676.5	825.3	961.5
Investments	175.4	175.4	2,842.8	4,842.8	6,842.8	8,842.8
	440.0	494.2	3,357.3	5,519.3	7,668.2	9,804.4
Current Assets						
Stocks	5,764.0	5,732.9	7,846.8	9,602.4	11,484.5	13,138.3
Trade Debtors	436.2	429.2	777.9	960.2	1,148.5	1,313.8
Advance and deposits	2,984.3	1,379.4	2,430.2	3,000.8	3,588.9	4,105.7
Cash and Cash Equivalent	3,134.8	4,424.7	5,709.7	6,174.2	6,987.8	7,913.0
	12,319	11,966	16,765	19,738	23,210	26,471
Total Assets	12,759	12,460	20,122	25,257	30,878	36,275
Liabilities & Equities:						
Current Liabilities:						
Creditors & Accruals	10,486.8	9,273.6	14,926.5	18,004.6	21,533.5	24,634.3
Income Tax Payable	30.1	20.5	114.3	114.3	114.3	114.3
Unclaimed Dividend	33.5	35.1	14.0	14.0	14.0	14.0
	10,550.4	9,329.2	15,054.8	18,132.9	21,661.8	24,762.6
Non-current Liabilities:						
Provision for Gratuity	130.0	186.7	205.7	205.7	205.7	205.7
Deferred Tax Liability/(Asset)	(25.4)	(39.3)	(39.4)	(39.4)	(39.4)	(39.4)
	104.6	147.4	166.3	166.3	166.3	166.3
Total Liabilities	10,655.0	9,476.6	15,221.1	18,299.2	21,828.1	24,928.9
Shareholder's Equity						
Share capital	450.0	540.0	702.0	912.6	912.6	912.6
Capital Reserves	152.8	152.8	152.8	152.8	152.8	152.8
Revenue Reserves	1,501.4	2,290.9	4,046.0	5,892.3	7,984.3	10,280.9
	2,104.2	2,983.7	4,900.8	6,957.7	9,049.7	11,346.3
Total Liabilities & Equities	12,759.3	12,460.3	20,121.9	25,257.0	30,877.8	36,275.2
Book Value per share	23.06	32.69	53.70	76.24	99.16	124.33

Source: Company Data, BRAC EPL Research, March 2013

Table: Indicators and Ratios

	2007A	2008A	2009A	2010E	2011E	2012E
Margins:						
Trading Profit Margin	31.1%	37.2%	61.9%	55.8%	56.7%	57.5%
Operating Margin	40.3%	55.5%	76.2%	69.3%	68.9%	68.5%
Net Income Margin	85.4%	105.3%	114.5%	98.8%	91.9%	92.1%
Other Income to Sales	73.5%	84.4%	75.6%	62.5%	53.7%	54.4%
EBIT Margin	40.3%	55.5%	76.2%	69.3%	68.9%	68.5%
EBITDA Margin	44.1%	58.3%	78.0%	71.6%	71.5%	71.2%
Growth:						
Revenue Growth	22.3%	46.0%	88.4%	32.3%	19.6%	14.4%
Volume Growth	11.2%	36.8%	13.7%	15.0%	15.0%	10.0%
Trading Profit Growth	79.0%	75.0%	213.0%	19.3%	21.5%	16.0%
Operating Profit Growth	70.9%	101.2%	158.7%	20.3%	18.9%	13.7%
Earning Growth	34.6%	79.8%	104.9%	14.1%	11.2%	14.7%
EBIT Growth	71%	101%	158.7%	20.3%	18.9%	13.7%
EBITDA Growth	62%	93%	152.3%	21.3%	19.5%	14.0%
Return:						
ROE	29.5%	39.9%	52.7%	40.0%	33.0%	29.7%
ROA	5.2%	8.0%	12.8%	10.5%	9.4%	9.0%
Leverage:						
Interest Bearing Debt	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	(3,134.8)	(4,424.7)	(5,709.7)	(6,174.2)	(6,987.8)	(7,913.0)
Debt to Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt to Asset	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other:						
Effective Tax Rate	24.9%	24.7%	24.6%	25.0%	25.0%	25.0%

Source: Company Data, BRAC EPL Research, March 2013

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