

# Petrol (PETG SV)

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NEW  
INVESTMENT  
CULTURE

12M Target price: 399 EUR

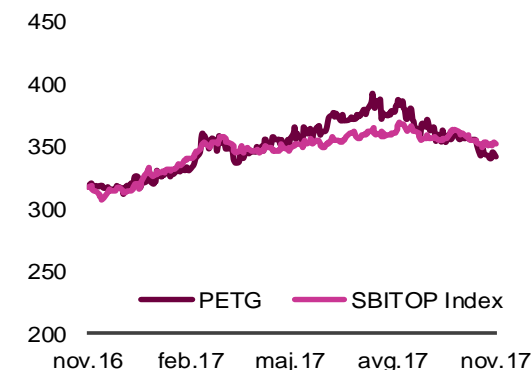
Recommendation: BUY

Previous target price: 399 EUR, HOLD (25.8.2017)

## KEY MARKET DATA:

Stock data as of 20.11.2017 :		Price performance:		3M	12M
Market price (EUR)	341.1	Price change in %		-9.8%	7.6%
52 week range (EUR)	311.0 - 392.0	SBI 20 index change in %		-2.6%	10.9%
Market Cap (EUR)	711.6	Relative to SBI 20 index in %		-7.3%	-3.0%
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	145	EV/Sales		0.2	0.2
Average daily % of stock traded	0.020%	EV/EBITDA		5.9	5.9
No. of Shares in millions	2.1	EV/EBIT		8.5	8.5
		P/E		9.2	9.3
Dividend yield	4.1%	P/B		1.1	1.1

## SHARE PRICE DYNAMIC:



## KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	TTM	2017F	2018F
Sales	3,816.9	3,856.7	4,470.8	3,923.3	4,144.3
EBITDA	136.8	145.1	157.5	156.6	164.1
Margin	3.6%	3.8%	3.5%	4.0%	4.0%
EBIT	90.5	99.6	109.8	109.6	115.9
Net income	65.5	72.7	77.2	76.9	80.8
EPS	31.4	34.8	30.3	36.9	38.7
DPS	12.6	14.0		15.5	17.4
Financial debt	485.4	407.4	403.2	407.4	407.4
Cash	34.4	27.0	33.5	27.5	29.0
Net debt	262.4	226.4	218.2	351.1	320.6
Equity	549.3	596.6	632.2	647.3	698.8
Assets	1,474.4	1,502.8	1,463.9	1,561.8	1,639.3
ND/EBITDA	1.9	1.6	1.4	2.2	2.0
P/E	8.1	9.3	9.2	9.2	8.8
EV/EBITDA	5.8	6.2	5.9	5.9	5.7

## KEY CURRENT DEVELOPMENT:

- Petrol was always considered as somewhat of a safe play due to its dominant domestic position, healthy balance sheet and demand elasticity. However there is always a long term question which is ever more arising with investors .. more than ever now since Slovenia has fully hopped on electricity cars bandwagon. Namely state strategy is set that from 2030 onwards pure diesel or motor fuel vehicle registration will be prohibited and that by 2030 electric or hybrid vehicles will have at least 17% market share. Its clear Petrol will need to adjust considerably. This is already happening at Petrol, which is seen in their strategy, CAPEX allocation, entering Next-E project etc. While Petrol has enough time and money to properly and timely adjust, it is true investors will need to monitor the progress in this field.
- On the other hand there are increasing talks for legislature that would limit retail sale on Sundays. Possibly Petrol could be a benefactor (if some stations would be an exception), but its to early to tell.
- Current consumer sentiment data (domestic and European / transit) is encouraging for Petrol while **9M17 is in-line** with expectation and their guidance. Target price is unchanged, **but as market price lowered upside again exists and recommendation is changed to buy.**

# 9M17 Results

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Product	unit	9M15	9M16	9M17	YoY
Petroleum products volume	thousand tons	2,068.4	2,286.6	2,476.7	8.3% ↑
Liquified petroleum gas volume	thousand tons	57.5	105.2	113.4	7.8% ↑
Natural gas volume	thousand MWh	842.2	832.2	838.0	0.7% ↑
Electricity	TWh	10.2	11.8	16.2	37.3% ↑
Heat	thousand MWh	81.1	83.4	88.4	6.0% ↑
Merchandise	in EURm	366.4	377.8	398.8	5.6% ↑

- Volume growth continues to be strong. In Slovenia Petrol Group sold 1,216.9 thousand tons, 49% of total sales. This is 7% more YoY, mostly based on motor fuel sales, and accelerated versus 1H17 results. In SEE Petrol Group sold 569.1 thousand tons (+2%) while in EU 690.7 thousand tons (+16%; only wholesale).
- Petroleum product sales retail : wholesale mix was at 41% : 59% in 9M17.

million EUR	9M15	9M16	9M17	YoY
Net sales revenues	2,843.1	2,709.5	3,323.6	22.7% ↑
Gross profit	257.2	282.5	311.8	10.4% ↑
Cost of materials	20.2	19.6	20.4	4.2% ↑
Cost of services	85.6	90.7	97.9	8.0% ↑
Labour costs	48.3	50.3	55.4	10.2% ↑
EBITDA	103.2	111.0	123.4	11.2% ↑
Margin	3.6%	4.1%	3.7%	
EBIT	69.3	77.0	87.2	13.3% ↑
Equity method investment	8.0	4.2	0.7	-83.2% ↓
Net financial result	-18.7	-8.7	-13.4	53.8% ↑
Net income	48.7	57.0	61.6	8.0% ↑

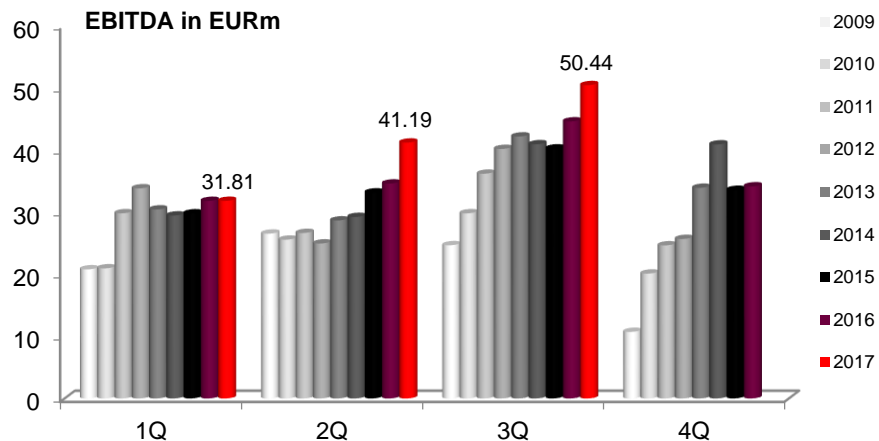
million EUR	9M15	9M16	9M17	YoY
Financial debt	485.4	458.1	403.2	-12.0% ↓
Cash	34.4	24.2	33.5	38.3% ↑
Net debt	451.1	433.9	369.6	-14.8% ↓
Investments	188.7	189.2	151.5	-19.9% ↓
Net debt 2	262.4	244.7	218.2	-10.8% ↓
Equity	549.3	582.1	632.2	8.6% ↑
Assets	1,474.4	1,429.1	1,463.9	2.4% ↑
Inventories	91.5	84.8	102.0	20.2% ↑
Operating receivables	324.2	301.3	354.0	17.5% ↑
Operating liabilities	402.9	346.9	354.1	2.1% ↑
CAPEX	46.7	47.3	43.3	-8.5% ↓
Neto dolg / kapital	0.8	0.7	0.6	
Neto dolg / EBITDA	3.3	3.0	2.3	

- Merchandise sales is likely up due to improving macro environment (sentiment is record high in Slovenia), albeit it will be hard to achieve pre-crisis levels as these growth rates were also boosted by introducing new product groups and these are ever harder to find. In mature Slovenian market they sold EUR 351.1m, up 4% YoY, while in SEE merchandise sales surged 15% YoY to EUR 47.7m. Here sales per station should put things into perspective... in Slovenia EUR 1.11 per station in 9M17 alone while in SEE EUR 0.27m per station.
- Opex dynamic is mostly in-line with top-line development and environment, just as in 1H17 report. The biggest surge is seen in labour cost which is a consequence of increased headcount. Namely headcount now totals 4,382 vs 4,166 from the beginning of the year (+216). Transport cost up EUR 1.4m, bank and payment services also up EUR 1.5m.
- Disposals/impairment of asset shrugged off EUR 14.2m versus EUR 11.8m in 9M16. Nevertheless EBITDA is slightly above our expectations of EUR 120.6m. However net financial result deteriorated due to a surge in allowances for operating receivables (up EUR 5.5m). Consequently reported net profit is in line with our expectations.
- Cash flow from operating activities amounted to EUR 77.3m. CAPEX stood at EUR 43.3m, out of which 40% allocated to other energy.
- Energy and Environmental Solutions sales revenues increased by 15% YoY, however profit slumped to EUR 1.4m from EUR 3.1m.
- On a side note Slovenian Competition Protection Agency has ceased investigating Geoplin regarding the breach of competition legislature, started in 2013. We believe provisions ere formed in Geoplin regarding this issue which could now be released. However more detailed information is lacking, so its hard to know how positive this is for Petrol.

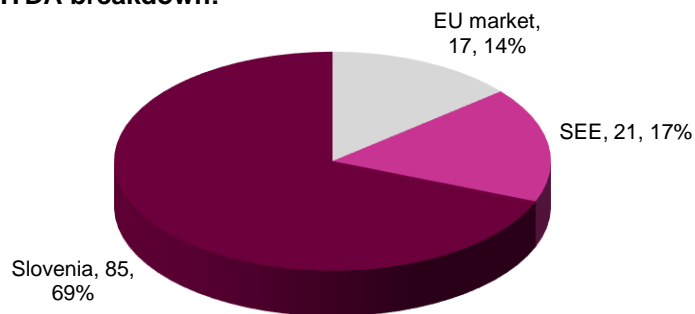
# 9M17 Results - supplemental

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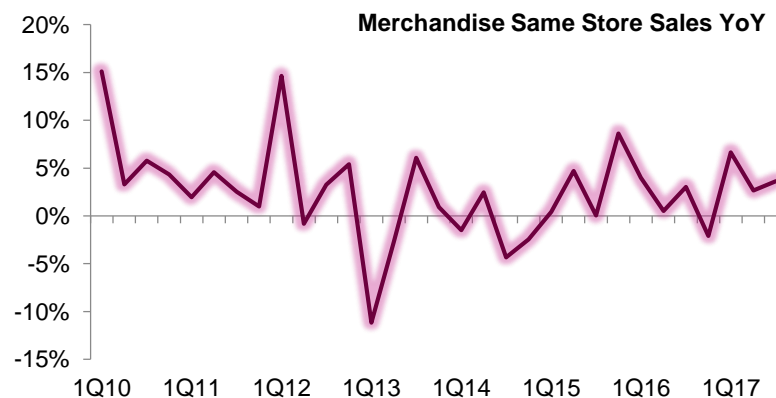
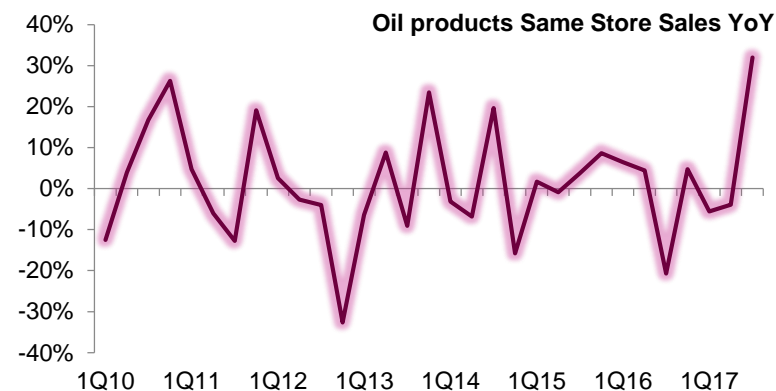
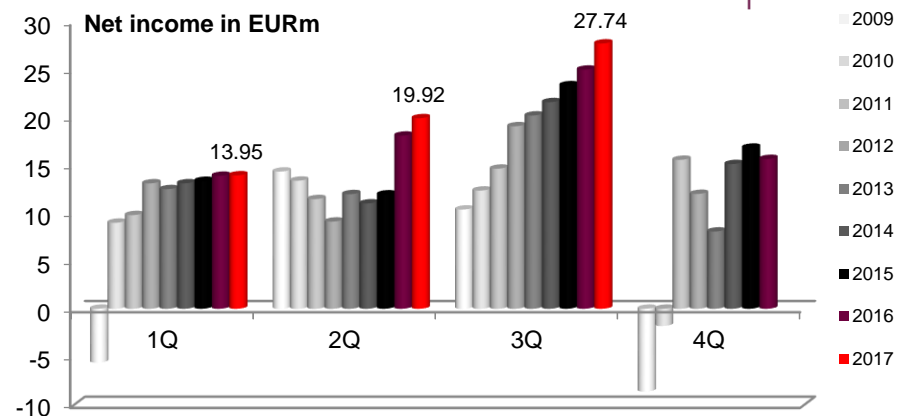
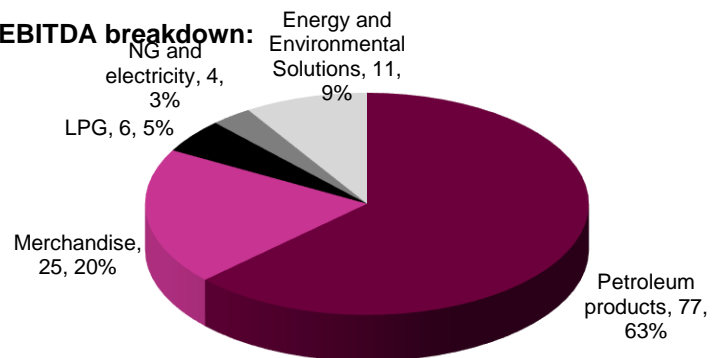
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**EBITDA breakdown:**



**EBITDA breakdown:**



# Investment Thesis

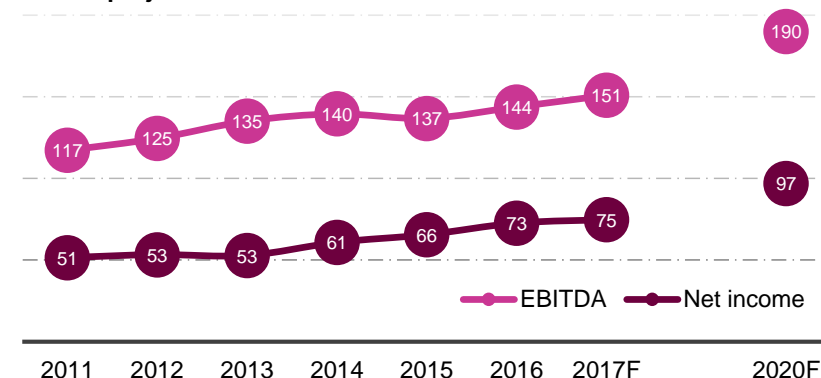
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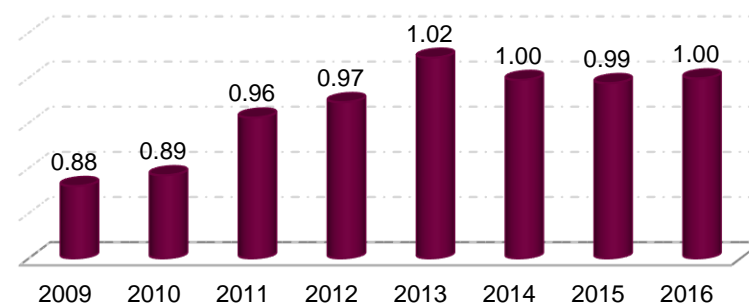
## POSITIVE:

- **Dominant domestic market position** with 316 domestic service stations (mostly owned), vast coverage of location across the country and 58% market share. Second is OMV with 111 stations, third MOL with 47 stations. **Hard to see any big market entrances or changes.**
- In addition Petrol has 176 service station in SEE with roughly 12% market share in Croatia (2nd place, with focus on coastal area where respective market share is higher), 9% market share in Montenegro etc.
- **Long term strategic goals (2020)** seem realistic with solid growth pace:
  - 3.14m tones of petroleum products;
  - EUR 719m of merchandise sales;
  - 113m m3 of natural gas (trading at 300m m3);
  - 15 TWh of electricity sales and trading;
  - 139t MWH of heat;
  - **EBITDA of EUR 190m and net profit of EUR 97m (7.5% CAGR);**
  - Net debt to EBITDA goal of 2.2x;
  - EUR 350m of fixes asset investment (2016-2020 period).
- **Past track record solid regarding EBITDA and profit** while the balance sheet condition and above mentioned guidance **promises a continuation of predictable dividend dynamic.**
- **With economic recovery hitting consumers, sales growth should be picking up.** This is already seen in 2016 and 9M17 results.
- **Successful at pushing merchandise sales through retail network** (EUR 1m of sales per station). This creates ~20% of Group EBITDA.
- Management is striving to find growth through testing new concepts. Over the long haul Petrol is already thinking about major energy shifts and is acting upon electricity solutions (CAPEX focused on other energy).
- EU wholesale segment volume is volatile and delivers only a narrow margin, however, it is incrementally adding to EBITDA (and value).
- **There is a long term potential in oil retail market liberalization** (partial liberalization implemented in 2016 / only on highways; first effects planned for summer season). Margins fixed per litre and 42% / 28% below EU average for diesel and gasoline.

Petrol's projections in mio EUR



Merchandise sales per station in EURm is strong



Dividend per share increasing in time



# Investment Thesis

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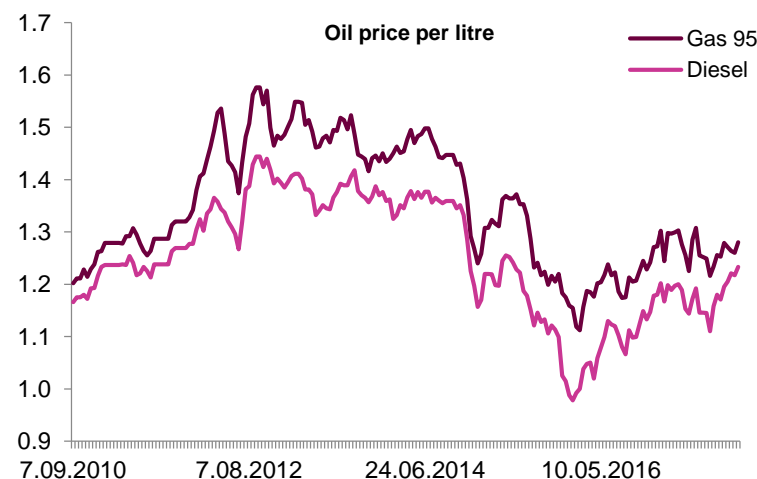
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## NEGATIVE:

- **Mature domestic market limits growth potential.** Also with Petrol being so productive in implementing merchandise sales in the last decade, there is a lack of new product / services categories to add.
- **Constant industry threat is a shift toward cheap automatic pumps,** which works directly opposite of what Petrol strategy is trying to do. Namely Petrol is ever more leveraging on „convenience store model“, albeit it is also utilizing „pay at the pump“ model. Its true that so far Petrol's strategy worked well, however risk is always present and will be higher in harsher economic times. If eventually market would shift, Petrol pumps would be overextended.
- Long term question is a transition to electric vehicles – what does this imply for oil retailers, especially given the fact Petrol mostly owns the land.
- ~17% of Group's EBITDA derives from its Other Energy segment (gas, LPG, electricity etc.) however the segment also engulfs ever more investments. **In 2016-2020 period 53% of guided CAPEX is tied to the Energy segment or EUR 186m.** While its rationalization of strategy is logical (and tied to shifts in auto industry), this high CAPEX still stirs some investor discomfort whether the segment will be cash flow (and value) accretive.
  - This sentiment headwind is emphasized by part state ownership.
  - Discomfort should derive also due to lower segment transparency, as Annual report moved most of its segmental „Other Energy“ business into „core“ category, thereby reducing the possibility to calculate EBITDA ex CAPEX for the segment.
- Pricing environment regarding transit sales is still unfavorable (high taxation; roughly 65% of the retail price). This is negatively affecting petroleum products and merchandise sales. We do not see the policy changing in the mid term, albeit results signal Petrol is coping well.



Energy operations (in EURm)	2011	2012	2013	2014	2015
EBITDA (with associates)	26.1	33.6	25.2	28.5	26.3
CAPEX	37.8	29.3	27.6	24.1	30.6
EBITDA - CAPEX	-11.6	4.3	-2.4	4.4	-4.3
ROA	5.0%	5.4%	2.6%	2.5%	1.6%
Net margin	7.5%	6.1%	2.3%	1.8%	1.0%



# Relative comparison

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Name	EV/S			EV/EBITDA			EV/EBIT			P/E			P/B		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Hellenic Petroleum	0.5	0.5	0.5	4.5	5.7	5.8	5.7	7.4	8.0	5.4	7.9	8.8	1.0	0.9	0.9
Sunoco	0.5	0.6	0.6	neg.	14.0	13.3	neg.	15.9	16.5	neg.	13.2	13.7	1.9	2.9	3.0
ACT	0.9	0.6	0.6	14.5	10.3	9.4	20.1	13.8	13.1	22.6	15.9	14.4	4.3	3.2	2.7
Casey's	0.7	0.6	0.5	10.6	9.1	8.6	17.8	16.3	15.6	27.5	24.0	21.9	3.9	3.4	2.9
OMV Petrom	0.7	0.8	0.7	2.3	2.1	2.1	5.0	4.2	4.0	8.1	6.1	5.8	0.6	0.6	0.5
OMV AG	0.8	0.7	0.7	6.9	3.8	3.8	40.3	6.9	7.1	neg.	13.6	13.5	1.9	1.4	1.3
Unipetrol	0.5	0.5	0.5	3.7	5.0	4.8	4.5	6.3	6.1	8.7	9.1	8.9	1.4	1.2	1.1
PKN Orlen	0.6	0.5	0.5	4.5	5.8	5.8	5.7	7.9	8.3	7.5	10.7	11.1	1.7	1.5	1.3
DCC PLC	0.6	0.5	0.4	16.9	12.2	11.9	25.2	15.8	14.9	29.2	19.5	18.7	4.3	3.4	3.1
Petrol	0.2	0.2	0.2	5.9	5.9	5.7	8.5	8.5	8.0	9.2	9.2	8.8	1.1	1.1	1.0
Median	0.6	0.6	0.5	5.7	5.8	5.8	11.7	7.9	8.3	8.7	13.2	13.5	1.9	1.5	1.3

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Hellenic Petroleum	11.7%	9.2%	5.3%	18.7%	6.1%	1.14	2.66	3.08	1.99
Sunoco	-0.9%	-2.6%	-4.9%	-41.8%	-8.0%	1.64	8.17	4.53	
ACT	6.2%	4.4%	3.2%	19.2%	6.2%	1.96	0.49	3.09	2.85
Casey's	6.6%	4.0%	2.2%	14.0%	5.3%	2.42	0.64	2.71	1.80
OMV Petrom	32.4%	14.7%	10.6%	7.2%	4.8%	0.45	5.18	1.49	-0.40
OMV AG	11.7%	2.0%	-1.2%	-2.8%	-0.9%	0.70	2.27	3.33	0.01
Unipetrol	12.8%	10.6%	10.2%	16.2%	15.8%	1.55	2.19	1.56	-0.81
PKN Orlen	12.3%	9.9%	7.3%	22.2%	11.6%	1.58	2.36	1.92	0.06
DCC PLC	3.3%	2.2%	1.8%	14.6%	4.0%	2.26	1.40	3.68	1.05
Petrol	3.5%	2.5%	1.7%	10.0%	5.3%	3.05	4.12	2.32	1.38
Median	11.7%	4.4%	3.2%	14.6%	5.3%	1.58	2.27	3.08	0.06



# Historic Financial Data

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in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets	843.4	1,114.7	1,202.3	1,135.5	1,265.5	1,537.0	1,571.5	1,617.4	1,554.0	1,474.4	1,502.8
Non-current assets	534.4	761.5	798.1	790.4	805.3	984.1	991.1	991.0	987.8	997.8	953.0
Current assets	309.0	353.1	404.2	345.1	460.2	552.8	580.5	626.4	566.3	476.6	549.8
Short term investment	1.5	14.7	2.5	1.4	3.8	7.9	1.6	1.6	5.3	2.3	1.8
Cash	28.7	10.2	14.0	7.8	17.5	60.7	37.6	69.7	58.6	34.4	27.0
Equity	396.4	440.2	388.6	381.5	404.6	441.6	433.7	467.7	503.3	547.4	595.7
Equity of non-controlling interests	0.1	0.7	33.8	31.3	34.5	30.8	-1.9	-1.9	-3.6	-1.9	-1.0
Provisions	27.8	22.5	5.9	6.5	6.6	7.0	7.2	8.4	9.2	9.4	10.8
Non-current liabilities	99.8	264.0	314.9	244.8	326.7	407.0	451.4	374.9	495.7	421.2	310.4
Non-current financial liabilities	97.3	260.8	306.7	236.6	318.8	373.3	429.7	357.2	480.1	415.6	304.9
Current liabilities	305.2	375.2	464.1	478.7	501.7	644.7	654.2	738.3	523.8	474.5	558.7
Current financial liabilities	87.0	157.9	227.5	262.1	173.2	238.3	203.9	243.2	87.0	69.9	102.5

in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenues	1,941.8	2,109.5	2,949.6	2,333.9	2,802.8	3,270.4	3,754.0	3,947.3	4,014.3	3,816.9	3,856.7
Total Revenues	1,962.3	2,120.1	2,949.6	2,333.9	2,802.8	3,270.4	3,754.0	3,947.3	4,014.3	3,816.9	3,856.7
Cost of goods, materials and services	1,823.1	1,990.9	2,800.2	2,189.8	2,650.3	3,096.4	3,572.1	3,753.3	3,815.4	3,614.7	3,625.8
Labour costs	44.9	44.5	49.9	52.5	53.9	56.1	60.7	59.3	63.0	65.1	67.2
D&A plus impairments	34.8	30.6	32.7	34.1	34.4	36.2	39.7	41.4	43.7	46.3	45.6
Other operating expenses	4.0	3.6	5.5	18.4	8.1	7.3	5.4	5.6	5.0	5.2	23.5
EBITDA	90.3	81.1	103.6	84.9	97.4	117.3	124.6	135.2	139.6	136.8	145.1
Operating income	55.4	50.5	70.9	50.8	63.0	81.0	84.9	93.8	95.9	90.5	99.6
Financial Income	45.0	50.2	131.3	61.9	79.1	130.7	75.8	55.7	48.4	63.3	48.5
Financial expenses	31.7	34.3	280.7	98.3	97.2	156.9	92.8	86.2	73.7	78.7	58.5
Interest cost	9.2	12.7	29.3	18.8	16.8	21.0	31.6	28.0	28.9	21.1	18.8
EBT	68.8	66.3	-78.6	14.4	44.9	54.7	68.0	63.4	70.5	75.1	89.6
Total taxes	10.7	13.1	-16.9	6.5	9.4	2.4	14.0	10.6	9.8	9.8	17.0
Net profit / loss	58.1	53.3	-61.7	7.9	35.5	52.3	53.9	52.8	60.7	65.3	72.7
Attributable to equity holders of the parent	58.1	53.3	-61.5	10.4	32.9	51.5	53.3	52.8	60.9	65.5	72.7

CAPEX	-38.8	-253.1	-140.8	-44.5	-65.9	-82.1	-117.4	-86.1	-58.5	-69.5	-61.3
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in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross margin	6.1%	5.6%	5.1%	6.2%	5.4%	5.3%	4.8%	4.9%	5.0%	5.3%	6.0%
EBITDA margin	4.6%	3.8%	3.5%	3.6%	3.5%	3.6%	3.3%	3.4%	3.5%	3.6%	3.8%
EBIT margin	2.9%	2.4%	2.4%	2.2%	2.2%	2.5%	2.3%	2.4%	2.4%	2.4%	2.6%
Net margin	3.0%	2.5%	-2.1%	0.4%	1.2%	1.6%	1.4%	1.3%	1.5%	1.7%	1.9%
Assets Turnover	2.30	1.89	2.45	2.06	2.21	2.13	2.39	2.44	2.58	2.59	2.57
ROA	6.9%	4.8%	-5.1%	0.9%	2.6%	3.3%	3.4%	3.3%	3.9%	4.4%	4.8%
Assets to Equity	2.13	2.53	3.09	2.98	3.13	3.48	3.62	3.46	3.09	2.69	2.52
ROE	14.7%	12.1%	-15.8%	2.7%	8.1%	11.7%	12.3%	11.3%	12.1%	12.0%	12.2%
Net debt / EBITDA	1.7	5.0	5.0	5.8	4.9	4.7	4.8	3.9	3.6	3.3	2.6
Debt to Assets	21.8%	37.6%	44.4%	43.9%	38.9%	39.8%	40.3%	37.1%	36.5%	32.9%	27.1%
Debt to Equity	0.46	0.95	1.37	1.31	1.22	1.38	1.46	1.28	1.13	0.89	0.68
TIE ratio	6.0	4.0	2.4	2.7	3.7	3.9	2.7	3.3	3.3	4.3	5.3
NWC / Assets	6.9%	9.6%	11.9%	9.9%	8.4%	4.0%	5.0%	3.1%	3.3%	1.3%	3.3%
Days inventory outstanding	15.9	15.6	11.5	13.7	14.9	11.9	16.3	14.8	10.5	9.2	11.7
Days receivable outstanding	37.1	41.4	36.1	38.7	42.4	41.0	35.9	36.3	34.4	31.8	36.9
Days payable outstanding	43.7	39.8	30.8	36.1	45.2	47.9	46.0	48.2	41.8	40.9	45.9
EBITDA - CAPEX	51.5	-172.0	-37.2	40.4	31.5	35.2	7.2	49.1	81.1	67.3	83.8

# Company & ALTA Description

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## COMPANY DESCRIPTION:

- Petrol, the leading Slovenian energy company, is the principal supplier of oil and other energy products for the Slovenian market.
- Petrol Group has 492 service stations (316 located in Slovenia) with complementing 135 car washes, 158 bars, more than 40 charging points for electric vehicles and 7 Tip Stop quick service facilities.
- In 2016 63% of EBITDA is generated through petroleum products sales, 20% through merchandise and the rest in other energy.

## OWNERSHIP STRUCTURE:

SDH	19.8%
Češkoslo.Obchodni Bank (Fid)	12.8%
KAD d.d.	8.3%
Splitska Banka (Fid)	4.8%
Vizija Holding k.d.d.	3.4%

Source: KDD

## RESEARCH REPORT:

### Prepared by:

Sašo Stanovnik  
Head of Research

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20.11.2017 14:30

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20.11.2017 11:30

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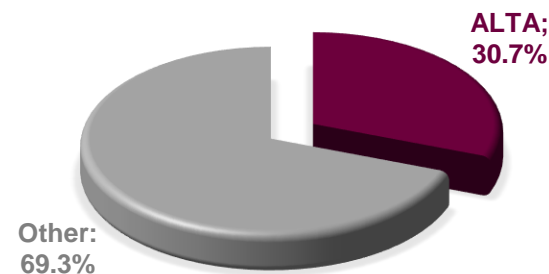
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- ✓ Our trading advantage is our execution of large trading blocks with low impact on the market.
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

### TTM market share:





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**Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation held securities of the relevant issuer.**

First release of the recommendation was performed on 13.4.2010.

Quarterly updates are planned for data, valuation, target price and recommendation.

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