

Public Comments & Suggestions on Sitara Petroleum Service Limited

Public Comment:

This is with reference to Notice Ref. #239 regarding the placement of the Draft Prospectus of “Sitara Petroleum Service Limited” on the PSX website for seeking public comments. After reading the prospectus, I am unable to understand a few points, which are as follows:

As of 30 June, 2024, the company reported EPS of Rs. 1.58 with revenue of Rs. 40 billion. However, as of 30 June 2025, the revenue increased to Rs. 121 billion and EPS increased to Rs. 23.22.

Someone should explain how, that in almost every IPO; the last year’s EPS becomes exceptionally high. This is not only the case with this company; it seems to happen in nearly every IPO. Based on these outstanding results, valuations are determined and a significant premium is charged on the shares. Retail investors are offering shares at high prices, and after 2–3 trading sessions, the stock is pumped and dumped. Ultimately, retail investors suffer losses.

As we have seen, last year’s EPS was Rs. 23.22, and you have based the entire valuation on this figure, offering a 40% price band and pricing a share with a break-up value of Rs. 8 at a maximum of Rs. 18. How is this justified? The valuation should be based on the EPS of the last six months of 2026 rather than on TTM (Trailing Twelve Months) results. Because of the impact of unusually strong outstanding results in the TTM period, the valuation appears inflated, and ultimately investors will bear the loss.

Lastly, please explain how a share with a break-up value of Rs. 8 is being offered at Rs. 18, meaning a face value of Rs. 1 is being offered at a 170% premium. Is this correct? In the last IPO of GDL (with a face value of Rs. 1), the share was pumped and dumped at Rs. 33. As a result, today its price is Rs. 20.90 at lower lock, which is 36% below its offered price. Who will be responsible for such incorrect valuations? Due to wrong valuation, if a company that requires Rs. 1 billion ends up raising Rs. 33 billion from investors, there is no accountability.

My suggestion is that the valuation should be conducted by a competent and qualified professional and it should also be considered how old the company’s business is and how consistent its financial results have been. Granting such a high premium to a new business is not justified. Alternatively, the price band should be capped at a maximum of 50% above the break-up value, which in Sitara’s case would be Rs. 12. Any additional premium should be determined based on public demand and supply.

Further, please note that I look forward to your reply regarding my concerns.

CTI Response:

The significant increase in revenue and profitability during FY2025 has been explained in detail in the Prospectus. The Company experienced supply constraints in the earlier period which impacted its sales volumes. Subsequently, following the strategic investment by Saudi Aramco in GO Petroleum, the supply situation improved materially. As a result, the Company was able to operate without the earlier supply limitations and achieved higher sales volumes during FY2025. The improvement in financial performance

therefore reflects operational normalization and improved supply availability rather than an abnormal or one-off increase.

The valuation of the Company has not been determined solely on the basis of the latest EPS. The detailed valuation methodology, including the financial projections and assumptions, has been disclosed in the Prospectus. The valuation has been determined by both methodologies and there is a significant discount in both methodologies.

With respect to the observation regarding the break-up value of approximately PKR 8 per share compared to the IPO price band, it may be noted that break-up value represents the historical book value of equity based on accounting records and does not necessarily reflect the Company's earning potential, growth prospects, or overall business value. Accordingly, IPO pricing is not determined solely on the basis of break-up value.

It is also pertinent to highlight that the Company conducted a Pre-IPO placement prior to the public offering, wherein shares were issued at a price reflecting approximately a 10% premium to the floor price. The Pre-IPO placement was subscribed by reputable institutional investors, including Bank Alfalah Limited and Lucky Investments Limited, which indicates independent investor validation of the valuation. These investors are also restricted for a period of one month from selling their shares in the market after listing.

The Prospectus contains comprehensive disclosures including detailed financial projections, risk factors, and valuation assumptions to enable investors to make an informed investment decision. Investors are encouraged to review the Prospectus in full prior to making any investment decision.

S.R	Comments & Responses
1	<p>Since the IPO offers only 10% of the post-issue capital, resulting in a limited free float, how does the company plan to address potential liquidity constraints and increased price volatility after listing?</p>
	<p>IPO offers 10%, Pre-IPO offers 6.66% and other shareholders constitute 8.55%, which makes the total free float post IPO to be 25.21%.</p>
2	<p>With 90% ownership remaining with the sponsors, how will the company ensure balanced governance and protect minority shareholders' interests?</p>
	<p>To protect the interests of minority shareholders, the Company has ensured that its Board includes three independent directors, providing unbiased oversight in decision-making. In addition, the Company will maintain full compliance with the Code of Corporate Governance (Pakistan), adopting a governance framework that emphasizes transparency, accountability, and regulatory adherence.</p> <p>Furthermore, following the proposed Initial Public Offering (IPO), the shareholding of the sponsors will be diluted to approximately 77%, resulting in increased public participation in the Company's ownership. By following this compliant and structured approach, the Company ensures that the rights and interests of minority shareholders are safeguarded alongside the majority ownership held by the sponsors.</p>
3	<p>Is the IPO intended merely for listing purposes, or is it aimed at raising meaningful capital to support growth?</p>
	<p>IPO is intended for raising meaningful capital to expand their fuel outlets, oil tankers and set up storage terminal at Gatti, Faisalabad as mentioned in the prospectus as well.</p>
4	<p>How does the company plan to effectively utilize the IPO proceeds?</p>
	<p>The oil storage terminal will utilize approximately 56% of the IPO proceeds, amounting to PKR 2.2 billion. Expansion of fuel pumps will account for PKR 1.34 billion, or roughly 34% of the proceeds, while oil tankers will require PKR 394 million, representing about 10%. The remaining costs will be financed through internal resources. For more details regarding utilization of the proceeds refer to section 4 of the prospectus</p>
5	<p>After obtaining the OMC license, does the company plan to operate as a separate legal entity?</p>
	<p>SPSL right now is operating as a separate legal entity. After obtaining of the OMC license, the company will continue to operate under the Dealer model and OMC model under the same entity</p>
6	<p>Allocation of 6.66% pre-ipo to a concentrated group of investors raises governance questions. If pricing is fixed for these investors and in book building if it goes above 14.85 wouldn't that be unjustified for the participants of the book building. If the price goes higher?</p>
	<p>Investing in a Pre-IPO offering carries both risks and potential rewards. If the strike price is determined below PKR 14.85, Pre-IPO investors may face downside risk. Additionally, the shares allotted to Pre-IPO investors will be subject to a 30-day lock-in period from the date of listing, as mentioned in the agreement to safeguard the interests of retail investors. Furthermore, the relatively high investment ticket size for the Pre-IPO placement limits participation to a concentrated group of investors.</p>

7	<p>Operating cash flow is negative PKR 704 million, while the forecast shows a positive inflow of PKR 1,036 million. Considering that operational expenses are expected to increase in 2026 due to the construction of the storage terminal and fuel stations, how has the 2026 forecast been derived? Additionally, how is the projected 2025 revenue expected to increase to three times that of 2024?</p>
	<p>The negative operating cash flow during FY2025 was primarily due to the Company's strategic expansion initiatives, including the acquisition of approximately 30% shareholding in Capital Smart Motors and an advance payment for land intended for the development of oil storage facilities. These investments resulted in significant cash outflows during the year.</p> <p>Revenue in FY2024 declined due to limited product availability faced by GO, which reduced allocations to SPSL. Prior to its acquisition by Saudi Aramco, GO was settling obligations with its previous supplier, which temporarily disrupted product supply. Following the acquisition, product availability improved, resulting in a recovery in revenue during FY2025.</p> <p>Revenue growth is expected to be driven by the expansion of the Company's retail and logistics network. The number of fuel stations is projected to increase from 52 in FY2025 to 84 by FY2026. As of 31 December 2025, 64 pumps were operational while 14 were under construction under various retail structures, including company-operated and dealer-operated models. Carriage revenue is also expected to increase due to the expansion of the transportation fleet from 320 to 360 vehicles. The Company has already achieved a net profit of PKR 2.714 billion in HFY2026 against the full-year forecast of PKR 4.39 billion, indicating that a substantial portion of the projected profitability has already been realized.</p>
8	<p>Why have forecasted figures been provided for only half of 2026? Where are the projections for the full year? Does this indicate limited confidence in the forecast assumptions?</p>
	<p>Full year forecast for FY2026 have been provided and the actual results of the half year are in line with the projections.</p>
9	<p>How can the sharp increase in gross margin from FY2024 to FY2025 be justified, followed by stabilization in FY2026? What assumptions support this trend?</p>
	<p>Increase in gross margins from FY2024 TO FY 2025 is because Dealer margins have increased substantially compared to previous years. In addition, the share of carriage services as a percentage of revenue has risen significantly. In prior years, carriage services contributed a relatively small portion of total revenue due to limited business from our key customer, GO. However, with increased activity, carriage services are now operating at full utilization.</p> <p>Furthermore, while sales volumes have increased, fixed expenses have largely remained unchanged, resulting in an improvement in gross profit margins. Gross margins are expected to stabilize in FY2026 as operations reach a more normalized level. Dealer margins are projected to increase, while carriage operations are expected to continue operating at full capacity. But with increase of operations, there will be associated operating costs. While overall revenue are expected to increase due to expansion in the retail network and number of carriages , the revenue mix and cost structure are expected to remain relatively stable, resulting in the stabilization of gross margins.</p>

10	What are the specific revenue drivers for the company while operating as a dealer selling oil and gas through other OMCs?
	<p>Dealer Margins on Fuel Sales: Revenue primarily comes from the margin earned per litre of fuel sold. Higher margins directly increase revenue.</p> <p>Sales Volume Growth: Increased fuel throughput at company-operated or dealer-managed pumps drives higher revenue. More stations or higher demand results in higher sales.</p> <p>Carriage Services: Revenue from transporting petroleum products. Higher fleet utilization and long-term contracts boost income.</p> <p>Retail Network Expansion: Opening additional fuel stations expands sales capacity and contributes to revenue growth.</p> <p>Other Services: Additional revenue streams from lubricants, convenience stores, or storage fees at pumps and terminals.</p>
11	The projected negative working capital position suggests strong supplier financing and efficient cash conversion however sustainability depends on maintaining favorable credit terms. Meanwhile D/E ratio being 1.01 for FY25 left undefined in the prospectus?
	<p>The past 5 year payable days have averaged around 14 days and in our projections we have only taken 7 days initially and gradually increased them. D/E is already mentioned in the prospectus. The Company has strong credit terms with their sole supplier GO.</p>
12	Why do the undiscounted cash flow figures increase drastically in FY28 and FY29? What assumptions support this sharp growth?
	<p>The Company is undertaking aggressive expansion during FY26 and FY27, which is expected to result in lower free cash flows due to higher capital expenditure, as reflected in the valuation sheet. From FY28 onwards, the planned capex is projected to decline significantly compared to FY26–FY27, leading to an improvement in free cash flows. Additionally, the Company's growing profit after tax (PAT) is also expected to support the increase in free cash flows.</p>
13	Why is the company valued so highly even though it has not yet obtained the OMC license? Are the valuation assumptions realistic and supported by facts?
	<p>The Company's valuation reflects its expected earnings increase, supported by ongoing expansion in fuel stations and carriage operations. The assumptions are based on historical performance, existing supply agreements, and planned growth in volumes, dealer and OMC margins, and fleet utilization. Since the comparable companies used in the analysis are all licensed OMCs, a discount has been applied to account for the pending license, making the valuation conservative and realistic.</p>
14	Does the significant discount between the reference valuation and the floor price indicate uncertainty regarding fair value realization and potentially weak institutional demand?
	<p>In every IPO, the floor price - and often even the cap price - is typically offered at a discount to the value derived through the discounted cash flow (DCF) valuation. This pricing approach is adopted to provide potential upside to retail investors following their investment.</p>
15	Does the implied discount to the stated value reflect limited investor confidence in near-term earnings visibility and growth execution?

	In every IPO, the floor price - and often even the cap price - is typically offered at a discount to the value derived through the discounted cash flow (DCF) valuation. This pricing approach is adopted to provide potential upside to retail investors following their investment.
16	Could undervaluation risk weaken investor confidence and limit the company's ability to raise funds? Could the company have raised more capital instead of offering shares at a discount?
	Comparable companies used in the analysis are all licensed OMCs, a discount has been applied to account for the pending license, making the valuation conservative and realistic. The relatively low floor price is a conservative pricing approach aimed at ensuring broad investor participation and a successful IPO. In addition, the discount reflects market considerations for key projects, timing of regulatory approvals, and the Company's phased expansion plan.
17	Does the relatively low floor price reflect weak underlying fundamentals?
	The relatively low floor price does not reflect weak underlying fundamentals rather it reflects a conservative approach, taking into account that the comparable companies used for valuation are all fully licensed OMCs. A discount has been applied to account for the pending OMC license, ensuring the IPO remains attractive to investors while aligning with market benchmarks.
18	The company is valued at 3.93x earnings, significantly below the market multiple of 8.5x. Does this discount reflect concerns about the sustainability and quality of reported earnings?
	Comparable companies used in the analysis are all licensed OMCs, a discount has been applied to account for the pending license, making the valuation conservative and realistic. The relatively low floor price is a conservative pricing approach aimed at ensuring broad investor participation and a successful IPO. In addition, the discount reflects market considerations for key projects, timing of regulatory approvals, and the Company's phased expansion plan.
19	Does the discounted P/E multiple incorporate regulatory uncertainty and execution risks associated with pending licensing approvals?
	Comparable companies used in the analysis are all licensed OMCs, a discount has been applied to account for the pending license, making the valuation conservative and realistic. The relatively low floor price is a conservative pricing approach aimed at ensuring broad investor participation and a successful IPO. In addition, the discount reflects market considerations for key projects, timing of regulatory approvals, and the Company's phased expansion plan.
20	Given that the company's profit margins are relatively low compared to its sales, how does it justify the substantial growth projected in the valuation and forecasts? Does the company plan to restructure its debt to sustain earnings and cash flows?
	In the OMC industry, profitability margins are generally low, as also reflected in the peer competitors table. This is primarily because petroleum product prices are regulated and comprise multiple components, with the petroleum levy being a significant portion. The levy is paid to the government, while only the dealership margin is retained by the dealer and the OMC margin by the OMC. As a result, profit margins remain relatively low compared to the overall sales value.
21	The forecasted PAT figures appear unrealistic, and the cash flow projections seem to be based purely on assumptions rather than supporting facts. Could you clarify the basis and key assumptions used in preparing these forecasts?

	<p>The forecasted profit after tax (PAT) for FY26 is PKR 4.3 billion, while the Company has already achieved PKR 2.67 billion during the first six months of the year. This indicates that the Company is likely to close FY26 with a PAT higher than the forecasted figure. Furthermore, the Company's PAT has been increasing over the years, supported by the management's aggressive expansion strategy. Additionally, once the Company obtains OMC status, it will be able to retain the OMC margin as well, which is expected to further enhance profitability.</p>																																
22	<p>What is SPSL's contingency plan if GO's OMC license is suspended or relationship deteriorates? Is there any diversification timeline for sourcing from a second OMC?</p>																																
	<p>While the suspension of GO's OMC license is considered highly unlikely, SPSL has evaluated potential contingencies to ensure business continuity. The Company's strategic pump locations provide flexibility, allowing it to partner with an alternative OMC if required. In the event of any disruption in the relationship with GO, SPSL can seamlessly establish arrangements with a second OMC without operational constraints, leveraging the prime locations of its existing network. This ensures minimal impact on supply and operations, effectively mitigating any such risk. Furthermore, SPSL is actively planning to develop its own OMC capabilities in the future, which will enable the Company to directly manage fuel supply and further strengthen operational control.</p>																																
23	<p>What is the expected timeline for OGRA approval of the oil storage terminal? Is there a risk of the OMC license application being delayed beyond FY2027?</p>																																
	<p>The Company expects to obtain approval for the oil storage terminal from Oil and Gas Regulatory Authority (OGRA) within six months following the completion of the IPO. Based on this expected timeline and the current progress of regulatory processes, management does not anticipate any material risk of the OMC license application being delayed beyond FY2027.</p>																																
24	<p>PKR 6.31 Bn in trade debts is very high relative to equity. What is the ageing profile? What is the provision for bad debts? Who are the large debtors?</p>																																
	<p>No provision for bad debts has been recognized because all trade receivables are being settled timely by the Company's directors and key clients. Historical trends show that payments are received well within the standard credit period of 45 days, and there is no evidence of default. Furthermore, under IFRS 9, the probability of default on these receivables is currently assessed as zero, indicating negligible credit risk. Therefore, based on both practical experience and accounting standards, no provision is warranted at this stage.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #002060; color: white;">Total Amount Receivable as at 30-June-25 (PKR.)</th> <th style="background-color: #002060; color: white;">Up to one month</th> <th style="background-color: #002060; color: white;">1 to 3 months</th> <th style="background-color: #002060; color: white;">more than 3 months</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">6,309,208,747</td> <td style="text-align: center;">4,371,270,244</td> <td style="text-align: center;">1,937,938,503</td> <td style="text-align: center;">-</td> </tr> </tbody> </table> <p style="text-align: center; margin-top: 10px;">Breakup of Large Debtors</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #002060; color: white;">S.No</th> <th style="background-color: #002060; color: white;">Name</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">1</td><td>Daewoo</td></tr> <tr><td style="text-align: center;">2</td><td>Empire Transport</td></tr> <tr><td style="text-align: center;">3</td><td>Haji Gul Enterprises</td></tr> <tr><td style="text-align: center;">4</td><td>Bilal Traders</td></tr> <tr><td style="text-align: center;">5</td><td>New Sahiwal Carriage</td></tr> <tr><td style="text-align: center;">6</td><td>S&R AGRI,</td></tr> <tr><td style="text-align: center;">7</td><td>Usman Carriage</td></tr> <tr><td style="text-align: center;">8</td><td>Zam Zam Filling Station</td></tr> <tr><td style="text-align: center;">9</td><td>Al-Majeed enterprises</td></tr> <tr><td style="text-align: center;">10</td><td>HAFIZ AGRI MALL</td></tr> <tr><td style="text-align: center;">11</td><td>My Energy</td></tr> </tbody> </table>	Total Amount Receivable as at 30-June-25 (PKR.)	Up to one month	1 to 3 months	more than 3 months	6,309,208,747	4,371,270,244	1,937,938,503	-	S.No	Name	1	Daewoo	2	Empire Transport	3	Haji Gul Enterprises	4	Bilal Traders	5	New Sahiwal Carriage	6	S&R AGRI,	7	Usman Carriage	8	Zam Zam Filling Station	9	Al-Majeed enterprises	10	HAFIZ AGRI MALL	11	My Energy
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	12	Bahawalpur Carriage
	13	HH Traders
	14	Islamabad Filling Station
	15	Mobin Carriage
25	Prospectus discloses insurance may not be fully in place. What specific coverages are missing? By when will full coverage be in place?	
	All company vehicles are fully insured. Insurance coverage for fuel pumps is currently in the process of being completed, with the majority already insured. The remaining pumps are expected to be brought under the required insurance coverage within the next twelve months, ensuring comprehensive protection of all operational assets.	
26	“Other shareholders” include close friends and family members of the sponsors holding 143.57 million shares. Does the company have any related party transactions with these individuals? If yes, why are they not disclosed?	
	None	
27	It seems to be a speculative IPO with low confidence in the fund raising and seems like SPSL is doing this just for a formality and not showing true signs of a public interest. Any opinion on that?	
	IPO is intended for raising meaningful capital to expand their fuel outlets, oil tankers and set up storage terminal at Gatti, Faisalabad as mentioned in the prospectus as well.	
28	Total liabilities nearly doubled in one year from PKR 6.4 Bn to PKR 11.2 Bn. Finance charges alone are PKR 1.2 Bn/year — what is the debt repayment plan?	
	Loans were obtained primarily to finance the construction of new pumps, which is reflected in the increase in Property, Plant, and Equipment. Furthermore, the expansion in the number of pumps led to higher working capital requirements, which were also financed through these borrowings. This debt will be paid in quarterly installments and it is planned that the entire loan will be paid off in 3.5-4 years.	
29	Since there are no long-term contracts with major customers and sales are purely transactional, how does the company mitigate the risk of sudden customer loss and revenue volatility?	
	Although sales are transactional with no long-term contracts, the Company mitigates customer loss and revenue volatility by adjusting allocations to existing clients, actively acquiring new customers, and leveraging its strategic pump locations. These measures ensure flexibility and reduce dependence on any single customer.	
30	Insurance coverage for petroleum storage and tanker operations is acknowledged as not fully in place?	
	All company vehicles are fully insured. Insurance coverage for fuel pumps is currently in the process of being completed, with the majority already insured. The remaining pumps are expected to be brought under the required insurance coverage within the next twelve months, ensuring comprehensive protection of all operational assets.	
31	The most critical use of proceeds is the Oil Storage Terminal (PKR 5+ billion), which is a prerequisite for obtaining an OMC license. Given that OGRA approvals have not yet been obtained and the terminal is still in the planning stage, how does the company plan to mitigate this key project execution risk?	

	<p>The Company expects to obtain approval for the oil storage terminal from Oil and Gas Regulatory Authority (OGRA) within six months following the completion of the IPO. Based on this expected timeline and the current progress of regulatory processes, management does not anticipate any material risk of the OMC license application being delayed beyond FY2027.</p>
32	<p>53% of corporate sales are to Daewoo alone. What would happen if they do not agree to renew the agreement in the long term? How will you cope with the loss in sales volume? Why is this not defined in the risk statement, considering it is a critical risk factor?</p>
	<p>The high concentration of sales to Daewoo Pakistan Express Bus Service, which accounts for 53% of the Company’s corporate sales, reflects FY25 efforts to establish Daewoo as a permanent customer while capping allocations to other clients. This represents approximately 53% of major corporate clients, but only about 10% of the total customer base, indicating a diversified overall portfolio.</p> <p>In the event that the agreement with Daewoo is not renewed in the future, the Company is well-positioned to mitigate this risk through two mechanisms:</p> <ol style="list-style-type: none"> 1. Existing Customers: The demand caps currently in place for other corporate clients can be removed, allowing the Company to fulfill higher volumes to these customers and offset the potential loss in sales from Daewoo. 2. New Customer Acquisition: The sales team is actively onboarding new corporate clients, which will further diversify the customer base. Combined with the ability to allocate more to existing clients, this ensures that the impact of losing Daewoo as a customer would be effectively mitigated. <p>Through these measures, the Company maintains flexibility in sales distribution and reduces dependence on any single client, thereby managing concentration risk proactively.</p>