

# Day Break

Thursday, 03 August 2017

## Sector Update

### OMC Sales Data for Jul-17

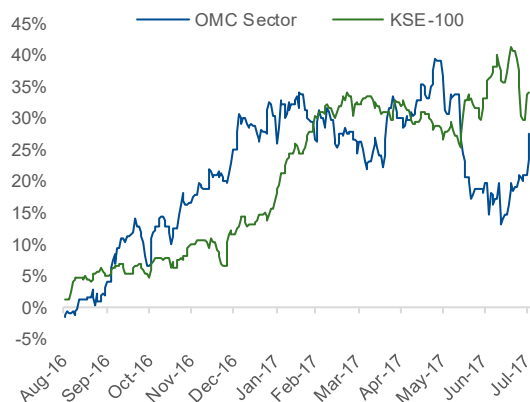
PSO Volumes (000' tons)				
	Jul-17	YoY	CY17TD	YoY
MS	246.9	12%	1,536.1	7%
HSD	312.2	26%	2,083.8	-8%
FO	641.9	-7%	3,957.1	-3%
Total	1,263.6	4%	8,032.2	-1%

HASCOL Volumes (000' tons)				
	Jul-17	YoY	CY17TD	YoY
MS	82.7	107%	489.9	70%
HSD	119.4	161%	645.3	65%
FO	50.9	-21%	348.0	3%
Total	253.8	69%	1,486.0	46%

SHEL Volumes (000' tons)				
	Jul-17	YoY	CY17TD	YoY
MS	67.6	-25%	601.6	-7%
HSD	51.2	-29%	557.7	-10%
FO	1.6	-72%	24.8	-19%
Total	127.7	-28%	1,277.9	-7%

APL Volumes (000' tons)				
	Jul-17	YoY	CY17TD	YoY
MS	57.1	12%	341.0	21%
HSD	81.8	51%	528.4	39%
FO	59.2	10%	397.4	20%
Total	202.6	25%	1,295.1	28%

### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

### Analyst

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## Oil & Gas – Marketing Companies

### Jul-17: Retail Segment Continues to be Backbone of Volumetric Growth for OMCs

- Oil marketing industry volumes posted double digit growth of +10%YoY to 2.31mnTons during Jul-17 bringing industry volumes for CY17TD to 14.89mnTon up by +4%YoY. To highlight, HSD volumes led the growth during Jul-17.
- MS sales increased by +14%YoY to 0.62mnTon in Jul-17, on the back of increasing demand. During the month HASCOL led MS growth by +2.1xYoY while PSO/APL posted +12%YoY each rise in volumes. HSD sales picked up substantially by +37%YoY to 0.76mnTon in Jul-17. For HSD HASCOL/APL led the chart by +2.6x/+51%YoY growth in volumes. FO volumes depicted a decline of 8%YoY to 0.85mnTon in Jul-17 as IPPs struggle to make overdue payments. For FO APL led the growth by posting +10%YoY jump in sales.
- We maintain our “BUY” call on HASCOL/PSO/APL with our Dec-17 target prices of PKR 430/share/ PKR 519/share/ PKR 847/share, respectively offering +21.3%/+22.5%/+16.7% upside from its last closing.

#### Volumes depicts a +10%YoY rise in Jul-17 to 2.31mnTons

Oil marketing industry volumes posted double digit growth of +10%YoY to 2.31mnTons during Jul-17 bringing industry volumes for CY17TD to 14.89mnTon up by +4%YoY. MS/HSD sales recorded a healthy growth of +14%/+37%YoY during Jul-17, while FO volumes declined by 8%YoY. On a monthly basis, industry volumes augmented by +9%MoM in Jul-17 on the back of increase in MS/HSD/FO sales by +9%/+18%/+2%MoM. To highlight, HSD volumes led the growth during Jul-17.

#### MS; Strong Demand Corroborated by steady prices

MS sales increased by +14%YoY to 0.62mnTon in Jul-17, on the back of increasing demand. On monthly basis volumes depicted an increase of +9%MoM, supported by drop in domestic price. We believe MS demand to remain strong owing to a) increasing automobile sales and, b) likely reduction in prices in the following months. During the month HASCOL led the growth by +2.1xYoY while PSO/APL posted +12%YoY each rise in volumes.

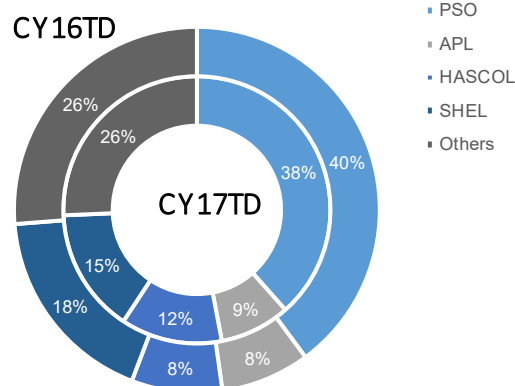
#### HSD; Demand picks up as development projects gain traction

HSD sales picked up substantially by +37%YoY to 0.76mnTon in Jul-17, while on monthly basis volumes augmented by +18%MoM as commercial transportation increased on the back of infrastructure development project pick up pace. In our view, demand for HSD is anticipated to remain strong owing to improving outlook of commercial transportation as infrastructure development projects pace up under CPEC and likely reduction in prices as international oil prices come down. For HSD HASCOL/APL led the chart by +2.6x/+51%YoY growth in volumes.

#### FO; Sales plummet during Jul-17 as IPPs struggle to make payments and coal power projects coming online

FO volumes depicted a decline of 8%YoY to 0.85mnTon in Jul-17 as IPPs struggle to make overdue payments. Furthermore, generation on coal picked up as Sahiwal Coal power plant came online leading to shift of generation owing to lower cost. However, on monthly basis, FO volumes increased by mere +2%MoM. For FO APL led the growth by posting +10%YoY jump in sales.

**Exhibit: MS Market Share - Company wise (CY17TD)**



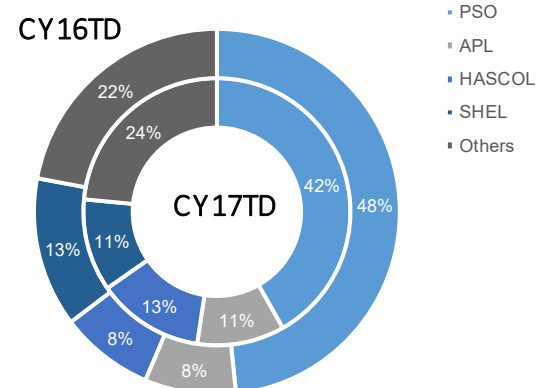
**Outlook**

We maintain over-weight stance on OMCs on the back of a) increased demand for MS as international oil prices remain under pressure leading to lower domestic prices, and b) upward revision in OMC margins by PKR 0.06/ltr for MS and HSD (yearly revision thereon linked with CPI). While coal projects start to commence power generation leading to lower demand for FO, we believe PSO to hold its ground through increased LNG demand until LNG supply contract is shifted to Pakistan LNG. However, in retail segment we expect HASCOL to gain further market share through aggressive expansion as demand rises on CPEC projects gaining traction. With SHEL losing its market share, we expect PSO to regain its market share as company is expanding its storage capacity to ease supply chain issues.

**Recommendation**

We maintain our “BUY” call on HASCOL/PSO/APL with our Dec-17 target prices of PKR 430/share/ PKR 519/share/ PKR 847/share, respectively offering +21.3%/+22.5%/+16.7% upside from its last closing.

**Exhibit: HSD Market Share - Company wise (CY17TD)**



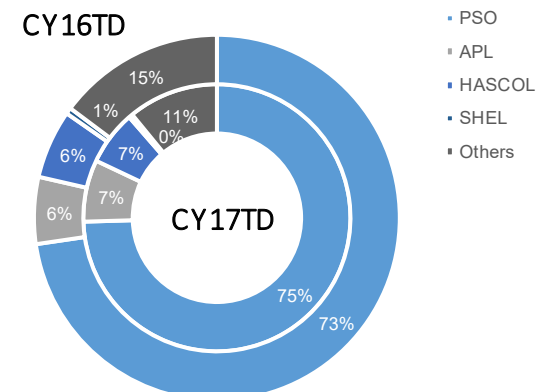
**Exhibit:**

**OMC's Monthly Sales Volume (Jul-17)**

000'tons	Jul-17	Jun-17	MoM	Jul-16	YoY	CY17TD	CY16TD	YoY
<b>Industry</b>								
MS	617.2	566.1	9%	543.7	14%	3,992.4	3,587.9	11%
HSD	755.3	640.8	18%	551.6	37%	4,987.4	4,700.9	6%
FO	856.1	838.2	2%	934.1	-8%	5,308.5	5,592.9	-5%
Others	79.0	78.4	1%	68.4	16%	600.9	495.2	21%
<b>Total</b>	<b>2,307.6</b>	<b>2,123.4</b>	<b>9%</b>	<b>2,097.8</b>	<b>10%</b>	<b>14,889.1</b>	<b>14,377.0</b>	<b>4%</b>
<b>PSO</b>								
MS	246.9	222.6	11%	220.5	12%	1,536.1	1,431.1	7%
HSD	312.2	261.2	20%	248.1	26%	2,083.8	2,271.7	-8%
FO	641.9	646.8	-1%	693.9	-7%	3,957.1	4,065.7	-3%
Others	62.6	63.9	-2%	54.0	16%	455.2	381.1	19%
<b>Total</b>	<b>1,263.6</b>	<b>1,194.5</b>	<b>6%</b>	<b>1,216.6</b>	<b>4%</b>	<b>8,032.2</b>	<b>8,149.5</b>	<b>-1%</b>
<b>APL</b>								
MS	57.1	50.7	13%	51.0	12%	341.0	282.5	21%
HSD	81.8	71.9	14%	54.1	51%	528.4	379.8	39%
FO	59.2	66.5	-11%	53.7	10%	397.4	330.2	20%
Others	4.5	4.1	9%	3.6	24%	28.4	21.7	31%
<b>Total</b>	<b>202.6</b>	<b>193.3</b>	<b>5%</b>	<b>162.3</b>	<b>25%</b>	<b>1,295.1</b>	<b>1,014.3</b>	<b>28%</b>
<b>HASCOL</b>								
MS	82.7	65.6	26%	39.9	107%	489.9	288.1	70%
HSD	119.4	85.8	39%	45.8	161%	645.3	390.9	65%
FO	50.9	53.4	-5%	64.8	-21%	348.0	339.3	3%
Others	0.8	0.4	75%	-	0%	2.7	-	0%
<b>Total</b>	<b>253.8</b>	<b>205.2</b>	<b>24%</b>	<b>150.5</b>	<b>69%</b>	<b>1,486.0</b>	<b>1,018.3</b>	<b>46%</b>
<b>SHEL</b>								
MS	67.6	89.7	-25%	89.8	-25%	601.6	644.8	-7%
HSD	51.2	74.3	-31%	72.2	-29%	557.7	621.9	-10%
FO	1.6	2.3	-28%	5.9	-72%	24.8	30.8	-19%
Others	7.3	7.2	2%	9.8	-25%	93.8	78.3	20%
<b>Total</b>	<b>127.7</b>	<b>173.4</b>	<b>-26%</b>	<b>177.6</b>	<b>-28%</b>	<b>1,277.9</b>	<b>1,375.8</b>	<b>-7%</b>

Source: IGI Research

**Exhibit: FO Market Share - Company wise (CY17TD)**



Source: Company Financials, IGI Research

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