

Day Break

Wednesday, 04 July 2018

Sector Update

OMC Sales Data for Jun-18

PSO Volumes (000' tons)

	Jun-18	YoY	FY18	YoY
MS	232.9	5%	3,130.1	19%
HSD	227.9	-13%	4,082.0	8%
FO	439.2	-32%	5,287.0	-24%
Total	939.8	-21%	13,345.1	-5%

HASCOL Volumes (000' tons)

	Jun-18	YoY	FY18	YoY
MS	62.0	-5%	993.0	43%
HSD	72.9	-15%	1,387.9	51%
FO	59.6	12%	696.5	15%
Total	195.3	-5%	3,087.2	39%

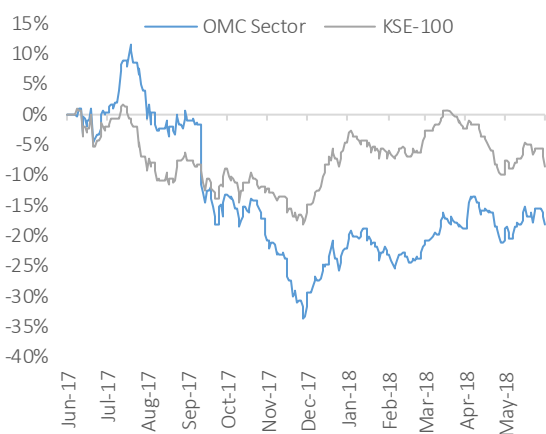
SHEL Volumes (000' tons)

	Jun-18	YoY	FY18	YoY
MS	77.5	-14%	988.3	-9%
HSD	42.1	-43%	655.1	-36%
FO	-	n/m	1.6	-98%
Total	126.1	-27%	1,749.4	-26%

APL Volumes (000' tons)

	Jun-18	YoY	FY18	YoY
MS	59.7	18%	697.5	24%
HSD	58.5	-19%	881.7	7%
FO	53.3	-20%	691.5	7%
Total	175.8	-9%	2,324.3	12%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Jun-18: Volumes up by +3%YoY in FY18; retail segment overshadow sluggish FO sales

- Industry volumes for oil marketing companies for the month of Jun-18 witnessed a decline of 10%YoY to 1.90mn ton bringing industry volumes for FY18 to 26.33mn ton up by meagre +3%YoY growth. To highlight, HASCOL and APL led the growth by posting +39%YoY and +12%YoY growth during FY18,
- MS sales increased by +8%YoY to 0.61mn Ton in Jun-18, on the back of increasing demand. HSD sales dropped by 8%YoY to 0.59mn Ton in Jun-18, while on monthly basis volumes plummeted by 34%MoM. FO volumes depicted a significant decline of 23%YoY to 0.65mn Ton in Jun-18 as Government of Pakistan (GoP) abruptly directed closure of inefficient FO based IPPs in Nov-17,
- We prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact, whereas disbursement of nearly PKR 80bn and PKR 100-200bn to be injected in power sector in May-18, will benefit PSO most in terms of easing working capital,
- We maintain PSO and APL as our top pick with our Dec-18 target price of PKR 407.0/share and PKR 740.3/share offering +29.1% and +28.6% upside respectively from its last close. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 379.7/share.

Volumes depict 10%YoY decline in Jun-18 to 1.90mn ton

Industry volumes for oil marketing companies for the month of Jun-18 witnessed a decline of 10%YoY to 1.90mn ton bringing industry volumes for FY18 to 26.33mn ton up by meagre +3%YoY growth. Motor Spirit (MS) sales registered a rise of +8%YoY during Jun-18, while Furnace Oil (FO)/High Speed Diesel (HSD) volumes reported a substantial decline of 8%/23%YoY. On a monthly basis, industry volumes dropped by 22%MoM in Jun-18 on the back of 34%/25%/4%MoM decline in HSD/FO/MS sales. For FY18, volumes leaped up owing to +18%/+13%YoY growth in MS/HSD sales. To highlight, HASCOL and APL led the growth by posting +39%YoY and +12%YoY growth during FY18.

MS; Demand remains strong amidst inflated domestic prices, HASCOL and APL stand tall

MS sales increased by +8%YoY to 0.61mn ton in Jun-18, on the back of increasing demand. On monthly basis, volumes depicted a decline of 4%MoM owing to Eid Holidays and increase in domestic prices by PKR 4.26/ltr for the month of Jun-18. For FY18, MS volumes leaped up by +18%YoY to 7.91mn ton on the back of a) rise in automobile sales, b) rise in CNG prices and, c) CNG curtailment. During FY18, HASCOL, APL and PSO led the chart by posting +43%YoY, +24%YoY and +19%YoY growth, while SHEL remain laggard with a decline of 9%YoY.

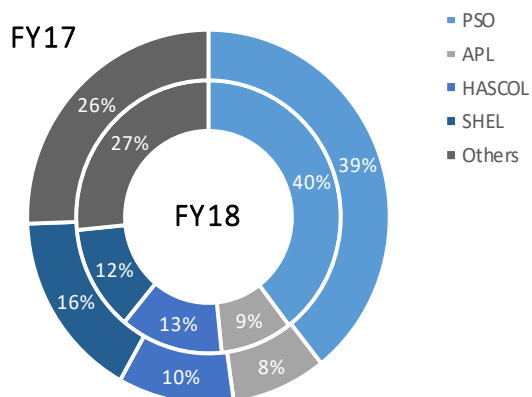
HSD; CPEC driving domestic demand with HASCOL leading the growth chart

HSD sales dropped by 8%YoY to 0.59mn ton in Jun-18, whereas on monthly basis volumes plummeted by 34%MoM. The sequential drop in volumes is likely owed to slowed commercial transport on the back of Eid holidays. This brings total FY18 sales at 9.56mn ton up by +13%YoY. For HSD, HASCOL, PSO and APL led the chart by posting +51%YoY, +8%YoY and +7%YoY growth in volumes respectively, while SHEL reported a decline of 36%YoY during FY18.

FO; Sales remained depressed amid lower power generation on FO

FO volumes depicted a significant decline of 23%YoY to 0.65mn ton in Jun-18 as Government of Pakistan (GoP) abruptly directed closure of inefficient FO based IPPs in Nov-17. However, on sequential basis, FO volumes dropped by 25%MoM. As a result, total FO volumes depicted a decline of 23%YoY in FY18 to 7.80mn ton. For FO, HASCOL and APL led the growth chart by posting +15%YoY and +7%YoY jump in sales respectively, while all other OMCs witnessed a drop in volumes.

Exhibit: MS Market Share - Company wise (FY18)



Outlook

While coal/LNG projects start to commence power generation and GoP's decision to shut down FO based power plants may lead to lower demand for FO prospectively, yet we believe 3.0-3.5mn ton of FO demand to remain owing to continuation of efficient FO based power plants to assure smooth operation of energy chain and meet summer demand and supply shortfall. With APL expanding its storage capacity which has led to increase in market share for MS and HSD, we prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact. Further with disbursement of nearly PKR 80bn and PKR 100-200bn injected into power sector during May-Jun'18 to ease cash constraints, we highlight PSO to benefit most in terms of easing working capital.

Recommendation

We maintain PSO and APL as our top pick with our Dec-18 target price of PKR 407.0/share and PKR 740.3/share offering +29.1% and +28.6% upside respectively from its last close. PSO/APL are currently trading at FY19F P/E of 5.7x/8.5x and offer a dividend yield of 6.3%/8.7%. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 379.7/share offering an upside of +22% from last close.

Exhibit: HSD Market Share - Company wise (FY18)

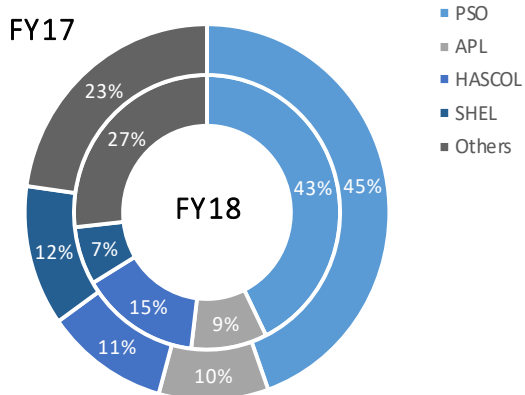


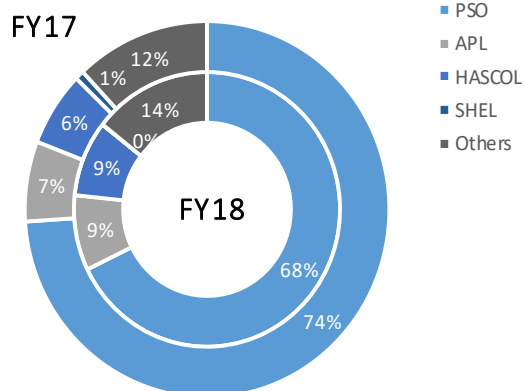
Exhibit:

OMC's Monthly Sales Volume (Jun-18)

000'tons	Jun-18	May-18	MoM	Jun-17	YoY	4QFY18	YoY	FY18	YoY
Industry									
MS	614.1	637.2	-4%	566.1	8%	1,902.7	8%	7,907.0	18%
HSD	589.2	888.9	-34%	640.8	-8%	2,248.1	-3%	9,562.8	13%
FO	645.4	857.0	-25%	838.2	-23%	1,872.4	-24%	7,798.7	-17%
Others	54.7	65.7	-17%	78.4	-30%	193.1	-24%	1,059.2	4%
Total	1,903.3	2,448.8	-22%	2,123.4	-10%	6,216.2	-8%	26,327.7	3%
PSO									
MS	232.9	246.3	-5%	222.6	5%	713.7	6%	3,130.1	19%
HSD	227.9	362.9	-37%	261.2	-13%	896.2	-6%	4,082.0	8%
FO	439.2	626.1	-30%	646.8	-32%	1,247.7	-33%	5,287.0	-24%
Others	39.8	50.2	-21%	63.9	-38%	140.2	-29%	846.0	13%
Total	939.8	1,285.4	-27%	1,194.5	-21%	2,997.7	-19%	13,345.1	-5%
APL									
MS	59.7	59.2	1%	50.7	18%	179.2	18%	697.5	24%
HSD	58.5	76.8	-24%	71.9	-19%	210.4	-17%	881.7	7%
FO	53.3	70.3	-24%	66.5	-20%	188.4	-2%	691.5	7%
Others	4.4	4.8	-10%	4.1	6%	12.8	7%	53.7	13%
Total	175.8	211.1	-17%	193.3	-9%	590.8	-3%	2,324.3	12%
HASCOL									
MS	62.0	74.4	-17%	65.6	-5%	238.0	12%	993.0	43%
HSD	72.9	148.8	-51%	85.8	-15%	345.5	16%	1,387.9	51%
FO	59.6	72.6	-18%	53.4	12%	184.6	15%	696.5	15%
Others	0.9	0.8	13%	0.4	112%	2.5	96%	9.9	409%
Total	195.3	296.6	-34%	205.2	-5%	770.6	15%	3,087.2	39%
SHEL									
MS	77.5	83.9	-8%	89.7	-14%	243.3	-11%	988.3	-9%
HSD	42.1	67.9	-38%	74.3	-43%	167.8	-39%	655.1	-36%
FO	-	-	0%	2.3	n/m	-	n/m	1.6	-98%
Others	6.5	6.2	4%	7.2	-10%	27.2	-19%	104.5	-41%
Total	126.1	158.0	-20%	173.4	-27%	438.2	-26%	1,749.4	-26%

Source: IGI Research

Exhibit: FO Market Share - Company wise (FY18)



Source: Company Financials, IGI Research

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Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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