

Day Break

Tuesday, 11 June 2019

Sector Update

OMC Sales Data for May-19

MS Volumes (000' tons)

	May-19	YoY	11MFY19	YoY
PSO	251.9	2%	2,534.6	-5%
APL	54.9	-7%	648.8	12%
HASCOL	37.4	-50%	643.0	-26%
SHEL	77.5	-8%	857.3	3%
Industry	604.1	-5%	6,804.7	2%

HSD Volumes (000' tons)

	May-19	YoY	11MFY19	YoY
PSO	340.5	-6%	2,665.7	-26%
APL	61.1	-20%	700.2	-8%
HASCOL	53.1	-64%	813.8	-34%
SHEL	55.5	-18%	508.2	-11%
Industry	706.2	-21%	6,762.1	-19%

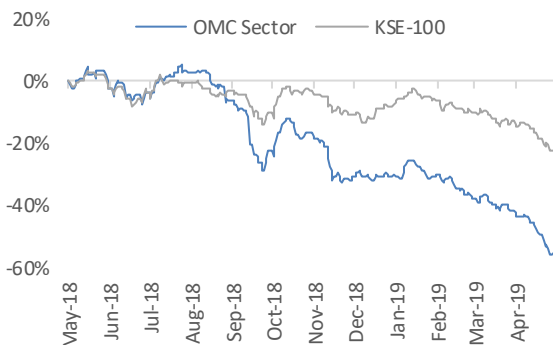
FO Volumes (000' tons)

	May-19	YoY	11MFY19	YoY
PSO	192.3	-69%	1,324.9	-70%
APL	23.3	-67%	378.2	-35%
HASCOL	30.2	-58%	378.3	-34%
SHEL	-	n/m	0.6	-61%
Industry	295.0	-66%	2,740.4	-58%

Others Volumes (000' tons)

	May-19	YoY	11MFY19	YoY
PSO	65.0	30%	550.1	-28%
APL	3.7	-24%	41.5	-8%
HASCOL	0.3	-58%	6.7	-17%
SHEL	1.6	-74%	31.6	-66%
Industry	72.7	11%	655.6	-31%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

May-19: Volumes contract by 31%YoY as recent price hikes and economic slowdown take a toll MS/HSD sales

- Industry volumes for oil marketing companies for the month of May-19 witnessed a decline of 31%YoY to 1.68mn ton bringing industry volumes for 11MFY19 to 16.96mn ton down by 25%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD)/ Motor Spirit (MS) sales registered drop of 66%/21%/5%YoY during May-19,
- MS sales dropped by 5%YoY in May-19, while on sequential basis, volumes are down by 11%MoM to 0.60mn ton likely on the back of lower demand due to price hike. For 11MFY19, MS volumes are up by +2%YoY to 6.80mn ton. HSD sales dropped down by 21%YoY to 0.71mn ton in May-19, while on monthly basis volumes are up by +9%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. FO volumes depicted a decline of 66%YoY to 0.29mn ton in May-19 as demand remained subdued owing to lower demand from FO based power plants which was also substituted by new low cost LNG/Coal plants operating at priority basis,
- We maintain BUY stance on APL, PSO and HASCOL with our Dec-19 target prices of PKR 403.79/share, PKR 219.49/share and PKR 112.44/share offering +41%, +31% and +23% upside respectively from its last close.

Volumes depict 31%YoY decline in May-19 to 1.68mn ton

Industry volumes for oil marketing companies for the month of May-19 witnessed a decline of 31%YoY to 1.68mn ton bringing industry volumes for 11MFY19 to 16.96mn ton down by 25%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD)/ Motor Spirit (MS) sales registered drop of 66%/21%/5%YoY during May-19. On a monthly basis, industry volumes picked up by +1%MoM in May-19 on the back of +9%/+8%MoM incline in HSD/FO sales. For 11MFY19, volumes decreased owing to 58%/19%YoY contraction in FO/HSD sales. To highlight, SHEL/APL recorded 15%/32%YoY drop in sales, while PSO and HASCOL witnessed 59%YoY and 34%YoY attrition in sales during May-19.

MS; Volumes down by 5%YoY during May-19, PSO led the way

MS sales dropped by 5%YoY in May-19, while on sequential basis, volumes are down by 11%MoM to 0.60mn ton likely on the back of lower demand due to price hike. For 11MFY19, MS volumes are up by +2%YoY to 6.80mn ton. During May-19, PSO led the chart by posting +2%YoY growth, while HASCOL, APL and SHEL registered 50%YoY, 8%YoY and 7%YoY decline in sales respectively.

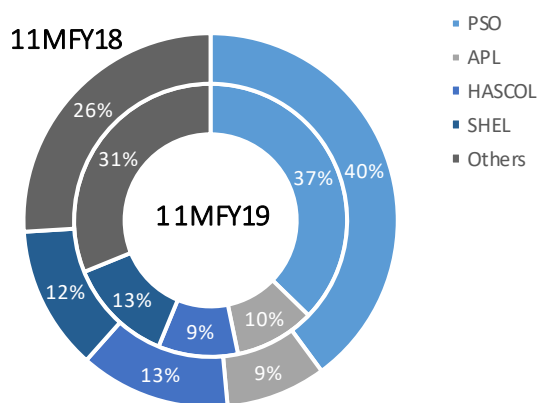
HSD; Grey market and economic slowdown hurting sales however PSO continues to grab market share in May-19

HSD sales dropped down by 21%YoY to 0.71mn ton in May-19, while on monthly basis volumes are up by +9%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 11MFY19 sales at 6.76mn ton down by 19%YoY. For the month of May-19, PSO/SHEL/APL/HASCOL posted 6%/18%/20%/64%YoY decline. However, despite the decline PSO was able to increase its market share at 48% during May-19.

FO; Lower generation on FO dragged volumes down by 66%YoY in May-19

FO volumes depicted a decline of 66%YoY to 0.29mn ton in May-19 as demand remained subdued owing to lower demand from FO based power plants which was also substituted by new low cost LNG/Coal plants operating at priority basis. On sequential basis, FO volumes are up by +8%MoM. As a result, total FO volumes are down by 58%YoY in 11MFY19 to 2.74mn ton. For the month of May-19, PSO, APL and HASCOL reported 69%YoY, 67%YoY and 58%YoY drop in sales respectively.

Exhibit: MS Market Share - Company wise (11MFY19)



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 2.5-3.0mn ton of FO demand will remain owing to continuation of efficient FO based power plants to assure smooth operation of energy chain and meet summer demand and supply shortfall. However, with higher domestic prices, monetary tightening and drop in automobile sales, we expect OMC volumes to remain subdued in the short term. Furthermore, with higher local prices, smuggled POL products especially HSD has led to significant drop in OMC sales. This in our view, would only be stopped through GoP intervention and until that time OMC's are likely to witness depressed sales volume. Moreover, increased competition has also led to decline in market share for larger OMCs such as HASCOL, APL and SHEL while PSO has recently started to capture its market share.

Recommendation

We maintain BUY stance on APL, PSO and HASCOL with our Dec-19 target prices of PKR 403.79/share, PKR 219.49/share and PKR 112.44/share offering +41%, +31% and +23% upside respectively from its last close.

Exhibit: HSD Market Share - Company wise (11MFY19)

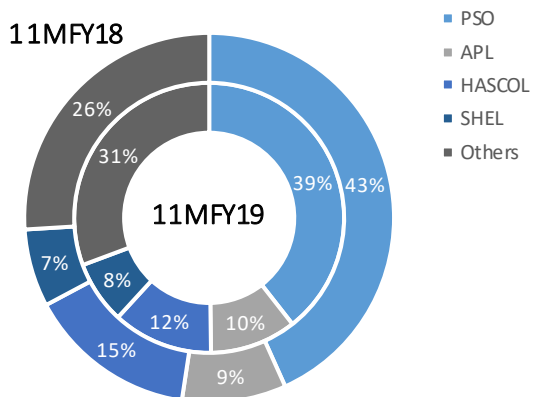


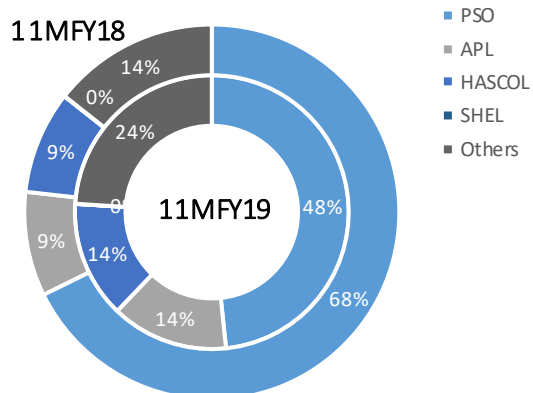
Exhibit:

OMC's Monthly Sales Volume (May-19)

000'tons	May-19	Apr-19	MoM	May-18	YoY	11MFY19	11MFY18	YoY
Industry								
MS	604.1	676.6	-11%	637.2	-5%	6,804.7	6,678.8	2%
HSD	706.2	650.7	9%	888.9	-21%	6,762.1	8,384.5	-19%
FO	295.0	274.4	8%	857.0	-66%	2,740.4	6,508.0	-58%
Others	72.7	57.3	27%	65.7	11%	655.6	949.8	-31%
Total	1,678.0	1,659.0	1%	2,448.8	-31%	16,962.8	22,521.1	-25%
PSO								
MS	251.9	268.0	-6%	246.3	2%	2,534.6	2,664.2	-5%
HSD	340.5	261.9	30%	362.9	-6%	2,665.7	3,626.1	-26%
FO	192.3	153.9	25%	626.1	-69%	1,324.9	4,408.6	-70%
Others	65.0	49.1	32%	50.2	30%	550.1	766.5	-28%
Total	849.6	733.0	16%	1,285.4	-34%	7,075.3	11,465.4	-38%
APL								
MS	54.9	64.1	-14%	59.2	-7%	648.8	578.1	12%
HSD	61.1	64.0	-5%	76.8	-20%	700.2	764.7	-8%
FO	23.3	39.2	-41%	70.3	-67%	378.2	585.0	-35%
Others	3.7	3.5	6%	4.8	-24%	41.5	44.9	-8%
Total	142.9	170.8	-16%	211.1	-32%	1,768.7	1,972.7	-10%
HASCOL								
MS	37.4	47.4	-21%	74.4	-50%	643.0	869.0	-26%
HSD	53.1	56.2	-5%	148.8	-64%	813.8	1,242.2	-34%
FO	30.2	19.1	58%	72.6	-58%	378.3	577.4	-34%
Others	0.3	0.4	-9%	0.8	-58%	6.7	8.1	-17%
Total	121.1	123.1	-2%	296.6	-59%	1,841.9	2,696.6	-32%
SHEL								
MS	77.5	87.4	-11%	83.9	-8%	857.3	833.2	3%
HSD	55.5	51.4	8%	67.9	-18%	508.2	570.9	-11%
FO	-	-	0%	-	n/m	0.6	1.6	-61%
Others	1.6	2.1	-21%	6.2	-74%	31.6	91.5	-66%
Total	134.7	140.8	-4%	158.0	-15%	1,397.8	1,497.2	-7%

Source: IGI Research

Exhibit: FO Market Share - Company wise (11MFY19)



Source: Company Financials, IGI Research

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Time Horizon: Dec – 2019

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(Reserve Based DCF Valuation)

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