

Flash Note

Thursday, 07 November 2019

Oil & Gas - Marketing Companies

ECC approves OMC margin increase in line with annual average CPI for FY20

- Economic Coordination Committee (ECC) in its meeting held on 6th-Nov-2019 approved annual margin increase for OMCs and dealers on MS and HSD in line with average annual CPI inflation for the year ending Jun-2019.
- The OMC margins on MS and HSD have been approved to be increased by PKR 0.17/litre each bringing revised margins to PKR 2.81/litre each from current PKR 2.64/litre. The margin increase stands effective immediately and would be applicable until next due revision which would be effective from 1st-Jul-20. The margin increase stands PKR 0.03/litre lower than our expectation of PKR 2.84/litre for FY20 owing to lower inflation rate applied by the ECC. Dealer margins are increased by PKR 0.22/litre on MS to PKR 3.70/litre while HSD dealer margin is increased by PKR 0.18/litre to PKR 3.11/litre.

Exhibit:

OMC Margin increase

PKR/litre	Current Margin	Increase	Inflation Rate	Revised Margin
MS	2.64	0.17	6.5%	2.81
HSD	2.64	0.17	6.5%	2.81

Source: Dawn, IGI Research

- According to Dawn news ([ECC okays Rs167bn power sector debt rescheduling](#)), the rate of inflation suggested by the Petroleum Division was 8.5% for the period starting Apr-18 to May-19, however the Planning Commission challenged the decision arguing that CPI inflation for the year ending Jun-19 stood at 6.5% and the margin increase should not be allowed based on the selective months. To note, previously OMC and dealers margins have been increased using the average inflation for the period Apr to May.
- Furthermore, ECC also directed that from here onwards, OMC margins will be increased annually based on the average inflation of fiscal year (year ending June). However, in our view this may imply some issues in application as OMC margins are effectively increased from 1st of July (for which notification is issued on 30th of June) each year and the average inflation for the year would require incorporating inflation for the month of Jun which is not published by that time.
- Based on this, we highlight both PSO and APL to benefit from MS and HSD margin increase. Assuming revised margins are effective from 1st-Dec-19, average OMC margins for FY20 would stand at PKR 2.74/litre and PKR 2.75/litre if effective from Nov-19. As a result of average margin of PKR 2.74/litre for FY20, we expect annual earnings impact of PKR 1.58/share and PKR 2.18/share for PSO and APL respectively for FY20.

Exhibit:

OMC Margin increase earnings impact

PKR/share	FY/CY20 EPS Impact	% of FY/CY20 EPS
PSO	0.93	4.2%
APL	1.28	3.8%

Source: Dawn, IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912