

Day Break

Monday, 07 March 2016

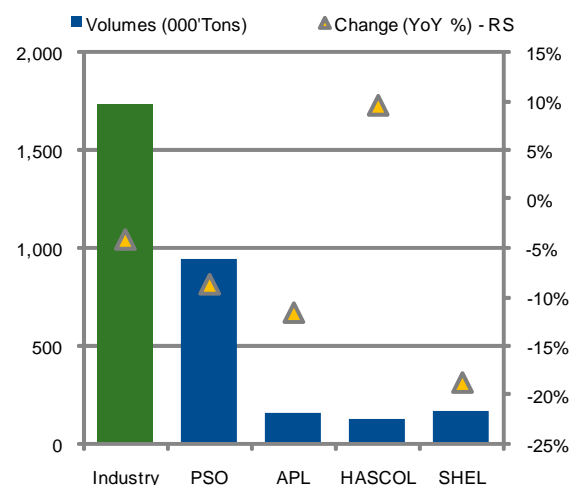
Sector Update

Monthly Volumes (Feb-16)

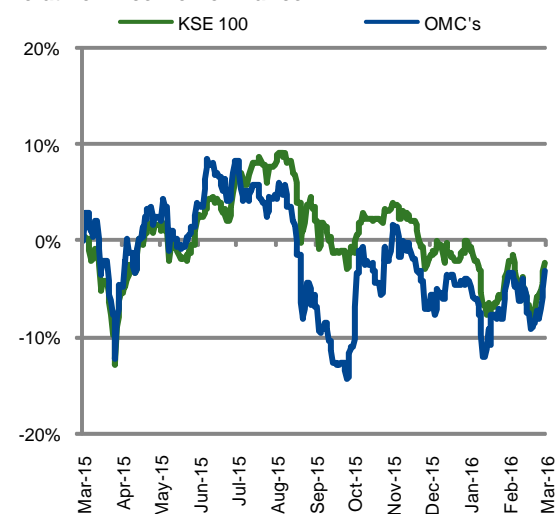
000' Ton

Company	MS	HSD	FO	Total
Industry	452	558	670	1,735
PSO	174	248	472	944
APL	43	51	52	149
HASCOL	37	48	44	128
SHEL	78	82	-	160

Company-Wise Volumes and YoY % Change



Relative Price Performance



Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Oil Marketing Companies

Feb-16: Industry Volumes Down; PSO Regaining MS Market Share

- Industry Sales witnessed a downward trend in Feb-16, declining by 8%MoM/4%YoY to 1.7mnT. FO volumes declined by 12%MoM/9%YoY, while HSD sales dropped by 6%MoM and remained flat on yearly basis. MS volumes, however, experienced the lowest decline of 2%MoM and stayed flat on yearly basis.
- PSO showed a +9%MoM /-23%YoY growth/decline in MS sales, whereas HSD sales hopped up by +4%MoM while declining by 13%YoY in Feb-16.
- At current prices, we have a strong "Buy" stance at PSO with a Dec-16 target price of PKR 458/share and "Buy" call on HASCOL offering +17% to our Dec-16 target price of PKR 170/share.

Feb-16: Industry Volumes Dropped by 8%MoM...

Industry Sales witnessed a downward trend in Feb-16, declining by 8%MoM/4%YoY to 1.7mnT. FO volumes declined by 12%MoM/9%YoY, while HSD sales dropped by 6%MoM and remained flat on yearly basis. MS volumes, however, experienced the lowest decline of 2%MoM and stayed flat on yearly basis.

MS Volumes for 8MFY16 recorded a growth of +26%YoY to 3.7mnT, followed by HSD sales which were up by +3%YoY to 4.7mnT. For FO, volumes were down by +6%YoY.

PSO: Increased MS Market Share

PSO showed a +9%MoM /-23%YoY growth/decline in MS sales, whereas HSD sales hopped up by +4%MoM while declining by 13%YoY in Feb-16. This has effectively taken PSO's market share to 38% and 48% for MS and HSD in Feb-16 from 35% and 40%, respectively. Similarly, APL also depicted a +6%MoM/+37%YoY growth in MS product, with market share advancing to 10% in Feb-16 compared 9% in Jan-16.

MS/HSD Volumes Likely To Gather Pace, Post Price Cut and Healthy Auto Sales Growth

Recent price cut in POL product (MS by PKR 8.5/ltr and HSD by PKR 5.5/ltr) is likely to induce volumes, going forward, as a) pricing differential between CNG and MS narrows down, and b) auto sales

Monday, 07 March 2016

continue to show healthy growth trend. For HSD, we expect price cut and start for Kharif season to likely boost volumes in months ahead.

Exhibit: OMC's Monthly Sales Volume (Feb-16)

000'tons	Feb-16	Jan-16	MoM	Feb-15	YoY	8MFY16	8MFY15	YoY
Industry								
MS	452.1	462.0	-2%	451.9	0%	3,681.2	2,913.1	26%
HSD	557.9	592.5	-6%	556.3	0%	4,741.3	4,619.9	3%
FO	670.4	761.5	-12%	734.1	-9%	5,501.1	5,832.0	-6%
Others	54.8	74.1	-26%	66.3	-17%	604.3	635.4	-5%
Total	1,735.3	1,890.2	-8%	1,808.6	-4%	14,527.9	14,000.4	4%
PSO								
MS	173.6	159.8	9%	226.4	-23%	1,544.7	1,371.2	13%
HSD	247.5	238.7	4%	285.5	-13%	2,196.6	2,258.3	-3%
FO	471.5	546.5	-14%	479.2	-2%	3,931.5	3,840.9	2%
Others	51.1	59.6	-14%	41.9	22%	424.1	360.8	18%
Total	943.7	1,004.6	-6%	1,033.0	-9%	8,096.9	7,831.2	3%
APL								
MS	43.1	40.7	6%	31.5	37%	267.2	210.3	27%
HSD	51.3	69.2	-26%	54.1	-5%	494.7	493.5	0%
FO	52.3	56.9	-8%	80.2	-35%	442.2	697.0	-37%
Others	2.6	3.4	-25%	3.0	-15%	28.6	25.2	14%
Total	149.3	170.3	-12%	168.8	-12%	1,232.7	1,426.0	-14%
HASCOL								
MS	36.5	40.9	-11%	17.3	112%	262.0	134.4	95%
HSD	47.8	66.1	-28%	31.4	52%	386.6	282.4	37%
FO	43.6	44.9	-3%	68.1	-36%	300.8	366.5	-18%
Others	-	-	0%	-	0%	-	-	0%
Total	128.0	151.9	-16%	116.7	10%	949.4	783.3	21%
SHEL								
MS	78.2	100.0	-22%	89.1	-12%	703.1	576.2	22%
HSD	81.6	84.9	-4%	81.7	0%	685.4	682.8	0%
FO	-	1.3	-100%	8.6	-100%	35.6	55.4	-36%
Others	-	9.0	-100%	17.2	-100%	129.8	156.3	-17%
Total	159.8	195.2	-18%	196.5	-19%	1,553.9	1,470.8	6%

Source: IGI Research

Monday, 07 March 2016

Exhibit: Market Share - Company-wise

	Feb-16	Jan-16	Feb-15	8MFY16	8MFY15
MS					
PSO	38%	35%	50%	42%	47%
APL	10%	9%	7%	7%	7%
HASCOL	8%	9%	4%	7%	5%
SHEL	17%	22%	20%	19%	20%
Others	27%	26%	19%	25%	21%
HSD					
PSO	44%	40%	51%	46%	49%
APL	9%	12%	10%	10%	11%
HASCOL	9%	11%	6%	8%	6%
SHEL	15%	14%	15%	14%	15%
Others	23%	23%	19%	21%	20%
FO					
PSO	70%	72%	65%	71%	66%
APL	8%	7%	11%	8%	12%
HASCOL	7%	6%	9%	5%	6%
SHEL	0%	0%	1%	1%	1%
Others	15%	15%	13%	14%	15%

Source: IGI Research

Outlook

We maintain over-weight stance on OMCs on the back of a) sustainable growth in MS volumes, b) government 3 year plan to reduce the quantum of circular debt to improve sector liquidity, and c) stable outlook of oil prices sustaining at current levels. In short-term, we believe OMC to post better performance as oil prices have started to rebound which may lead to possible one time inventory gains in 1QFY16. At current prices, we have a strong **“Buy”** stance at PSO with a Dec-16 target price of PKR 458/share and **“Buy”** call on HASCOL offering +17% to our Dec-16 target price of PKR 170/share.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Discounted Cash Flow (DCF)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt

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