

Day Break

Thursday, 13 October 2016

Sector Update

OMC Sales Data for Sep-16

PSO Volumes (000' tons)

	Sep-16	YoY	1QFY17	YoY
MS	228.6	3%	656.3	4%
HSD	260.9	-6%	765.9	-2%
FO	612.7	21%	2,050.1	31%
Total	1,162.3	9%	3,646.1	17%

HASCOL Volumes (000' tons)

	Sep-16	YoY	1QFY17	YoY
MS	62.9	113%	146.4	77%
HSD	74.7	88%	177.4	66%
FO	43.6	10%	162.9	26%
Total	181.1	66%	486.8	53%

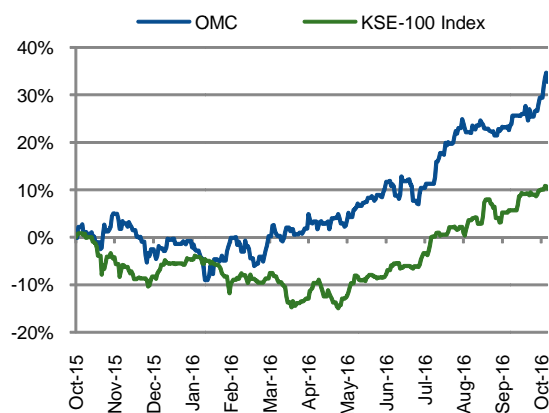
SHEL Volumes (000' tons)

	Sep-16	YoY	1QFY17	YoY
MS	94.5	1%	274.7	1%
HSD	94.5	7%	244.8	-4%
FO	7.2	14%	24.7	119%
Total	209.5	3%	582.4	-1%

APL Volumes (000' tons)

	Sep-16	YoY	1QFY17	YoY
MS	50.5	45%	153.6	74%
HSD	60.6	10%	190.4	4%
FO	55.8	7%	163.0	-3%
Total	170.3	17%	519.4	15%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil Marketing Companies

Sep-16: Sales Mount by +13%YoY

- Oil Marketing industry volumes depicted an impressive growth of +13YoY (down 6%MoM) to 2.1mnTon in Sep-16. During the month, MS/HSD/FO sales leaped up by +15%/+8%/+17%YoY. Industry volumes for 1QFY17 augmented by +20%YoY to 6.4mnTon owing to +20%/+10%/+28%YoY jump in MS/HSD/FO sales.
- We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, and c) revision in margins by PKR 0.06/ltr for MS and HSD (yearly revision thereon linked with CPI).
- We currently have a 'BUY' call on PSO and HASCOL with our target price of PKR 508/share (Dec-16) and PKR 292/share (Jun-17) respectively.

Volumes witnessed growth of +13%YoY in Sep-16

Oil Marketing industry volumes depicted an impressive growth of +13YoY (down 6%MoM) to 2.1mnTon in Sep-16. During the month, MS/HSD/FO sales leaped up by +15%/+8%/+17%YoY. Industry volumes for 1QFY17 augmented by +20%YoY to 6.4mnTon owing to +20%/+10%/+28%YoY jump in MS/HSD/FO sales.

MS; Unchanged prices keeping volumes upbeat

MS sales increased by +15%YoY/+6%MoM to 0.58mnTon in Sep-16, on the back of higher demand amid stable prices. We expect sales to remain upbeat in Oct-16 owing to unchanged prices.

HSD; Stable prices to keep demand upbeat

HSD sales augmented by +8%YoY to 0.62mnTon in Sep-16, however on monthly basis volumes plunged by 3%. However, in our view, demand for HSD is anticipated to remain strong owing to lower prices expectations and improving outlook on commercial transportation.

FO; Sales rise on the back of higher FO based power generation

FO volumes depicted a notable hike of +28%YoY to 0.8mnTon in Sep-16, by the reason of higher LSFO demand from Hubco and Pakgen power plants. Whereas, volumes depicted a decline of 4%MoM in Jul-16 as FO prices witnessed +13%MoM rise pushing FO cost of powergeneration higher than gas.

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

000'tons	Sep-16	Aug-16	MoM	Sep-15	YoY	CY16TD	CY15TD	YoY	1QFY17	1QFY16	YoY
Industry											
MS	576.2	543.2	6%	501.1	15%	4,707.3	4,031.1	17%	1,663.1	1,387.4	20%
HSD	623.2	642.0	-3%	578.3	8%	5,966.1	5,576.7	7%	1,816.8	1,646.3	10%
FO	821.9	974.7	-16%	701.2	17%	7,389.5	6,785.7	9%	2,730.7	2,129.8	28%
Others	78.6	82.4	-5%	78.2	1%	656.2	703.2	-7%	229.3	216.8	6%
Total	2,099.9	2,242.2	-6%	1,858.8	13%	18,719.1	17,096.6	9%	6,439.9	5,380.3	20%
PSO											
MS	228.6	207.1	10%	222.9	3%	1,866.8	1,886.9	-1%	656.3	629.1	4%
HSD	260.9	256.9	2%	278.4	-6%	2,789.5	2,796.6	0%	765.9	777.7	-2%
FO	612.7	743.5	-18%	506.6	21%	5,421.8	4,671.3	16%	2,050.1	1,559.3	31%
Others	60.1	59.9	0%	56.4	6%	501.0	410.4	22%	173.9	148.0	18%
Total	1,162.3	1,267.3	-8%	1,064.3	9%	10,579.1	9,765.3	8%	3,646.1	3,114.0	17%
APL											
MS	50.5	52.2	-3%	34.9	45%	385.2	258.9	49%	153.6	88.2	74%
HSD	60.6	75.7	-20%	55.1	10%	516.1	567.0	-9%	190.4	182.3	4%
FO	55.8	53.6	4%	52.1	7%	439.6	634.1	-31%	163.0	168.2	-3%
Others	3.4	5.4	-36%	3.7	-8%	30.5	33.9	-10%	12.4	11.7	6%
Total	170.3	186.8	-9%	145.9	17%	1,371.4	1,493.9	-8%	519.4	450.4	15%
HASCOL											
MS	62.9	43.6	44%	29.5	113%	394.6	201.0	96%	146.4	82.8	77%
HSD	74.7	57.0	31%	39.7	88%	522.6	299.7	74%	177.4	106.7	66%
FO	43.6	54.5	-20%	39.6	10%	437.4	418.9	4%	162.9	129.2	26%
Others	-	-	0%	-	0%	-	-	0%	-	-	0%
Total	181.1	155.2	17%	108.9	66%	1,354.5	919.6	47%	486.8	318.7	53%
SHEL											
MS	94.5	90.4	5%	93.9	1%	829.7	799.8	4%	274.7	273.3	1%
HSD	94.5	78.2	21%	88.1	7%	794.6	821.8	-3%	244.8	254.3	-4%
FO	7.2	11.6	-38%	6.3	14%	49.6	44.0	13%	24.7	11.3	119%
Others	13.4	15.0	-11%	15.3	-12%	106.7	185.0	-42%	38.2	48.3	-21%
Total	209.5	195.2	7%	203.7	3%	1,780.6	1,850.6	-4%	582.4	587.2	-1%

Source: IGI Research

Retail and storage facility expansion by HASCOL results in reshuffling of market share

APL and HASCOL gained significant market share reaching 9% each, for MS during 1QFY17 owing to expansion in retail outlets and storage facilities, while PSO and SHEL lost market share by 600bps and 300 bps to 39% and 17%, respectively. HASCOL gained substantial market share for HSD to reach 10% in 1QFY17 from 6% in the same period last year owing to aggressive expansion in retail outlets and storage facilities to cater rising demand. However, PSO, APL and SHEL lost market share by 500bps, 200bps and 100bps to 42%, 10% and 13%, respectively in 1QFY17. PSO regained its market share for FO by 200bps to 75% as APL and SHEL lost their market share by 193bps and 38bps, respectively in 1QFY17.

Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, and c) revision in margins by PKR 0.06/ltr for MS and HSD (yearly revision thereon linked with CPI). We currently have a 'BUY' call on PSO and HASCOL with our target price of PKR 508/share (Dec-16) and PKR 292/share (Jun-17) respectively.

Exhibit: Market Share - Company-wise

	Sep-16	Aug-16	Sep-15	CY16TD	CY15TD	1QFY17	1QFY16
MS							
PSO	40%	38%	44%	40%	47%	39%	45%
APL	9%	10%	7%	8%	6%	9%	6%
HASCOL	11%	8%	6%	8%	5%	9%	6%
SHEL	16%	17%	19%	18%	20%	17%	20%
Others	24%	28%	24%	26%	22%	26%	23%
HSD							
PSO	42%	40%	48%	47%	50%	42%	47%
APL	10%	12%	10%	9%	10%	10%	11%
HASCOL	12%	9%	7%	9%	5%	10%	6%
SHEL	15%	12%	15%	13%	15%	13%	15%
Others	21%	27%	20%	23%	20%	24%	20%
FO							
PSO	75%	76%	72%	73%	69%	75%	73%
APL	7%	6%	7%	6%	9%	6%	8%
HASCOL	5%	6%	6%	6%	6%	6%	6%
SHEL	1%	1%	1%	1%	1%	1%	1%
Others	12%	11%	14%	14%	15%	12%	12%

Source: IGI Research

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Time Horizon: Dec – 2016/ Jun – 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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