

Day Break

Tuesday, 02 April 2019

Sector Update

OMC Sales Data for Mar-19

MS Volumes (000' tons)

	Mar-19	YoY	9MFY19	YoY
PSO	254.3	21%	2,014.8	-8%
APL	58.8	-1%	529.7	16%
HASCOL	52.3	-27%	558.2	-19%
SHEL	82.7	2%	692.4	4%
Industry	645.5	8%	5,524.0	2%

HSD Volumes (000' tons)

	Mar-19	YoY	9MFY19	YoY
PSO	233.9	-11%	2,063.2	-30%
APL	65.9	-26%	575.2	-6%
HASCOL	54.8	-49%	704.5	-27%
SHEL	47.1	-11%	401.3	-10%
Industry	574.8	-21%	5,405.2	-20%

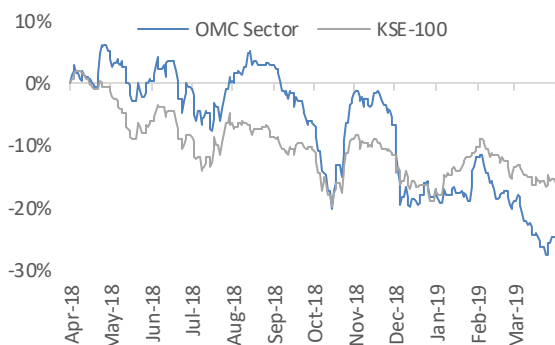
FO Volumes (000' tons)

	Mar-19	YoY	9MFY19	YoY
PSO	90.9	-41%	978.7	-73%
APL	29.7	-49%	315.7	-30%
HASCOL	15.9	-75%	329.0	-27%
SHEL	-	n/m	0.6	-61%
Industry	185.0	-50%	2,171.0	-59%

Others Volumes (000' tons)

	Mar-19	YoY	9MFY19	YoY
PSO	46.5	-36%	436.0	-35%
APL	3.7	-16%	34.3	-6%
HASCOL	0.4	-40%	6.0	-7%
SHEL	1.7	-78%	27.9	-61%
Industry	54.6	-41%	525.7	-35%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Mar-19: Economic slowdown and higher prices take its toll as volumes dropped by 18%YoY

- Industry volumes for oil marketing companies for the month of Mar-19 witnessed a decline of 18%YoY to 1.46mn ton bringing industry volumes for 9MFY19 to 13.63mn ton down by 25%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 50%/21%YoY during Mar-19, while Motor Spirit (MS) increased by +8%YoY,
- MS sales augmented by +8%YoY in Mar-19, while on sequential basis, volumes inched up by +5%MoM to 0.65mn ton likely on the back of higher demand during the end of the month in anticipation of a substantial price hike. HSD sales dropped down by 21%YoY to 0.58mn ton in Mar-19, while on monthly basis volumes are down by 2%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 50%YoY to 0.19mn ton in Mar-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 APL and PSO as our top pick with our Dec-19 target price of PKR 524.97/share and PKR 256.30/share offering +33% and +20% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.0x/7.9x and offer a dividend yield of 8.8%/4.7%.

Volumes depict 18%YoY decline in Mar-19 to 1.46mn ton

Industry volumes for oil marketing companies for the month of Mar-19 witnessed a decline of 18%YoY to 1.46mn ton bringing industry volumes for 9MFY19 to 13.63mn ton down by 25%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 50%/21%YoY during Mar-19, while Motor Spirit (MS) increased by +8%YoY. On a monthly basis, industry volumes picked up by +2%MoM in Mar-19 on the back of +8%/+5%MoM incline in FO/MS sales whereas HSD reported a 2%MoM decline in sales. For 9MFY19, volumes decreased owing to 59%/20%YoY contraction in FO/HSD sales. To highlight, SHEL/PSO 7%/11%YoY drop in sales, while HASCOL and APL witnessed 50%YoY and 25%YoY attrition in sales during Mar-19.

MS; Volumes up by +8%YoY during Mar-19, PSO and SHEL led the way

MS sales augmented by +8%YoY in Mar-19, while on sequential basis, volumes inched up by +5%MoM to 0.65mn ton likely on the back of higher demand during the end of the month in anticipation of a substantial price hike and continued curtailment of CNG at pumps. For 9MFY19, MS volumes are up by +2%YoY to 5.52mn ton. During Mar-19, PSO and SHEL led the chart by posting +21%YoY and +2%YoY growth respectively, while HASCOL and APL registered 27%YoY and 1%YoY decline in sales respectively.

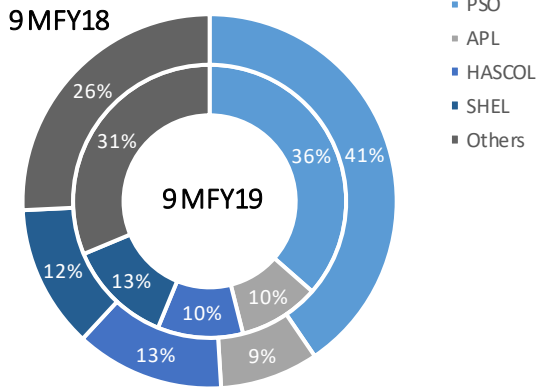
HSD; Grey market hurting sales however PSO grabbed substantial market share in Mar-19

HSD sales dropped down by 21%YoY to 0.58mn ton in Mar-19, while on monthly basis volumes are down by 2%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 9MFY19 sales at 5.41mn ton down by 20%YoY. For the month of Mar-19, PSO/SHEL posted 11%YoY decline each while HASCOL and APL remain laggards with a decline of 49%YoY and 26%YoY respectively. However, despite the decline PSO and SHEL grabbed 5%YoY and 1%YoY market share respectively during Mar-19.

FO; Lower generation on FO dragged volumes down by 50%YoY in Mar-19

FO volumes depicted a decline of 50%YoY to 0.19mn ton in Mar-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 59%YoY in 9MFY19 to 2.17mn ton. For the month of Mar-19, HASCOL, APL and PSO reported 75%YoY, 49%YoY and 41%YoY drop in sales respectively.

Exhibit: MS Market Share - Company wise (9MFY19)

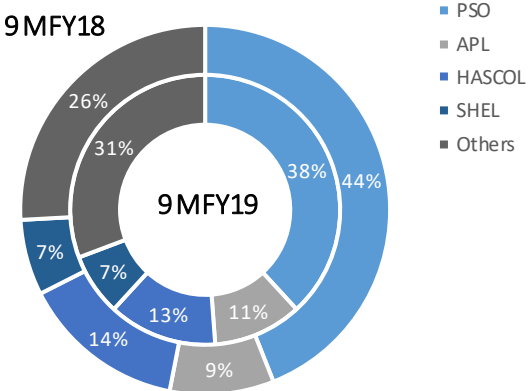


Outlook

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. More so, if recent drop in international oil prices sustain at current level, it may translate in to lower domestic prices leading to slight boost in volumes. 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.

Recent issue of PKR 200bn Sukuk to clear circular debt will benefit PSO the most in terms of cash flows and thus we prefer PSO and APL. While there is a possibility of another PKR 200bn Sukuk issue to follow, we believe this will further upgrade our stance on PSO and APL.

Exhibit: HSD Market Share - Company wise (9MFY19)



Recommendation

We maintain APL and PSO as our top pick with our Dec-19 target price of PKR 524.97/share and PKR 256.30/share offering +33% and +20% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.0x/7.9x and offer a dividend yield of 8.8%/4.7%.

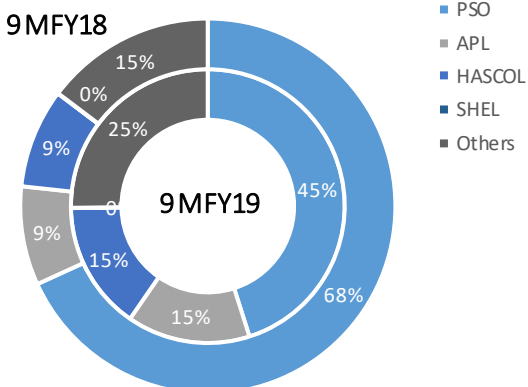
Exhibit:

OMC’s Monthly Sales Volume (Mar-19)

000’tons	Mar-19	Feb-19	MoM	Mar-18	YoY	9MFY19	9MFY18	YoY
Industry								
MS	645.5	613.6	5%	597.9	8%	5,524.0	5,390.3	2%
HSD	574.8	583.9	-2%	730.0	-21%	5,405.2	6,725.6	-20%
FO	185.0	171.4	8%	368.6	-50%	2,171.0	5,281.0	-59%
Others	54.6	59.1	-8%	91.9	-41%	525.7	811.4	-35%
Total	1,459.9	1,428.1	2%	1,788.4	-18%	13,625.8	18,208.2	-25%
PSO								
MS	254.3	212.2	20%	210.7	21%	2,014.8	2,183.5	-8%
HSD	233.9	217.1	8%	263.8	-11%	2,063.2	2,957.9	-30%
FO	90.9	61.7	47%	154.2	-41%	978.7	3,600.1	-73%
Others	46.5	50.2	-7%	73.2	-36%	436.0	666.0	-35%
Total	625.6	541.2	16%	701.8	-11%	5,492.7	9,407.6	-42%
APL								
MS	58.8	55.2	6%	59.5	-1%	529.7	458.5	16%
HSD	65.9	52.0	27%	89.1	-26%	575.2	612.8	-6%
FO	29.7	31.3	-5%	57.9	-49%	315.7	449.8	-30%
Others	3.7	4.2	-12%	4.3	-16%	34.3	36.5	-6%
Total	158.1	142.7	11%	210.7	-25%	1,455.0	1,557.6	-7%
HASCOL								
MS	52.3	74.9	-30%	72.1	-27%	558.2	693.0	-19%
HSD	54.8	91.2	-40%	107.2	-49%	704.5	969.5	-27%
FO	15.9	30.1	-47%	64.6	-75%	329.0	452.3	-27%
Others	0.4	0.4	-3%	0.7	-40%	6.0	6.5	-7%
Total	123.4	196.6	-37%	244.6	-50%	1,597.7	2,121.3	-25%
SHEL								
MS	82.7	78.6	5%	80.8	2%	692.4	667.4	4%
HSD	47.1	47.3	0%	52.6	-11%	401.3	445.2	-10%
FO	-	-	0%	-	n/m	0.6	1.6	-61%
Others	1.7	1.9	-12%	7.7	-78%	27.9	70.8	-61%
Total	131.4	127.8	3%	141.0	-7%	1,122.2	1,185.1	-5%

Source: IGI Research, OCAC

Exhibit: FO Market Share - Company wise (9MFY19)



Source: Company Financials, IGI Research

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Time Horizon: Dec – 2019

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