

# Day Break

Wednesday, 04 April 2018

## Sector Update

### OMC Sales Data for Mar-18

#### PSO Volumes (000' tons)

	Mar-18	YoY	9MFY18	YoY
MS	210.7	-1%	2,183.5	12%
HSD	263.8	-3%	2,957.9	5%
FO	154.2	-68%	3,600.1	-29%
Total	701.8	-33%	9,407.6	-10%

#### HASCOL Volumes (000' tons)

	Mar-18	YoY	9MFY18	YoY
MS	72.1	3%	693.0	45%
HSD	107.2	29%	969.5	55%
FO	64.6	26%	452.3	2%
Total	244.6	20%	2,121.3	37%

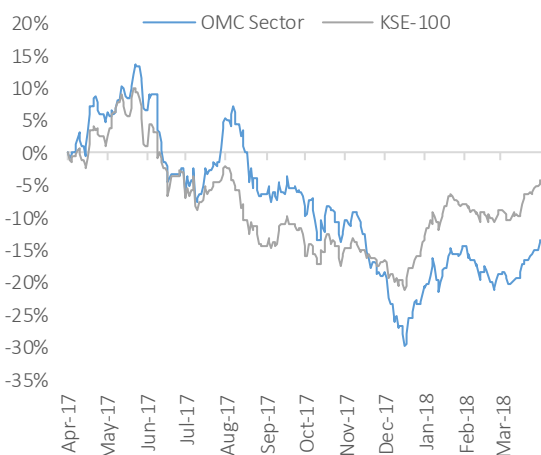
#### SHEL Volumes (000' tons)

	Mar-18	YoY	9MFY18	YoY
MS	80.8	-11%	667.4	-18%
HSD	52.6	-43%	445.2	-40%
FO	-	n/m	1.6	-97%
Total	141.0	-32%	1,185.1	-33%

#### APL Volumes (000' tons)

	Mar-18	YoY	9MFY18	YoY
MS	59.5	28%	458.5	11%
HSD	89.1	37%	612.8	8%
FO	57.9	12%	449.8	-1%
Total	210.7	26%	1,557.6	6%

### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas – Marketing Companies

### Recovery in FO and retail segment sales drive monthly volumes by +23%MoM;

- Industry volumes for oil marketing companies witnessed a decline of 11%YoY to 1.79mn Tons during Mar-18 bringing industry volumes for 9MFY18 to 18.21mn Ton down by meagre 3%YoY. To highlight, APL and HASCOL led the growth by posting +26%YoY and +20%YoY growth during Mar-18,
- MS sales increased by +5%YoY to 0.60mn Ton in Mar-18, on the back of increasing demand. HSD sales augmented by +9%YoY to 0.73mn Ton in Mar-18, while on monthly basis volumes increased by +24%MoM. FO volumes depicted a significant decline of 46%YoY to 0.37mn Ton in Mar-18,
- We prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact, whereas disbursement of nearly PKR 80bn and PKR 40-50bn to be injected in power sector in Apr-17, we highlight PSO to benefit most in terms of easing working capital
- We maintain our **"BUY"** call on PSO and APL with our Dec-18 target prices of PKR 385/share and PKR 677/share respectively, offering +17% and +15% upside from their last closing.

#### Volumes depict 11%YoY decline in Mar-18 to 1.79mn Tons

Industry volumes for oil marketing companies witnessed a decline of 11%YoY to 1.79mn Tons during Mar-18 bringing industry volumes for 9MFY18 to 18.21mnTon down by meagre 3%YoY. Motor Spirit (MS)/High Speed Diesel (HSD) sales posted a growth of +5%/+9%YoY during Mar-18, while Furnace Oil (FO) volumes reported a substantial decline of 46%YoY. On a monthly basis, industry volumes recovered by +23%MoM in Mar-18 on the back of +49%/+24%/+13%MoM growth in FO/HSD/MS sales. To highlight, APL and HASCOL led the growth by posting +26%YoY and +20%YoY growth during Mar-18.

#### MS; Keeping a hold on the rising demand despite domestic price hike

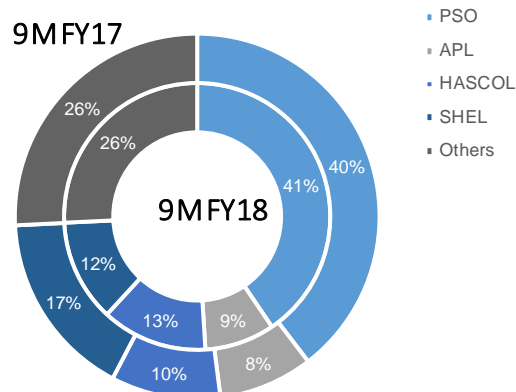
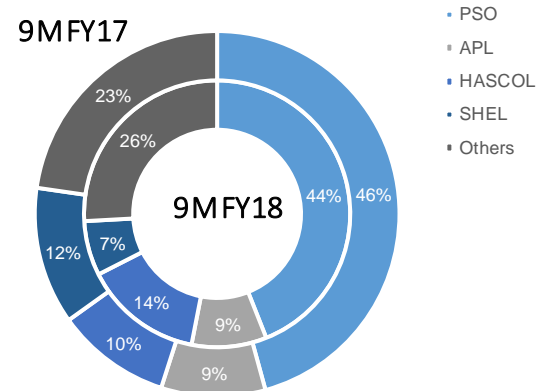
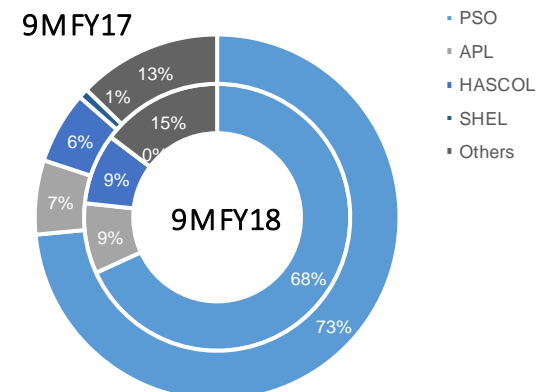
MS sales increased by +5%YoY to 0.60mn Ton in Mar-18, on the back of increasing demand. On monthly basis volumes depicted a growth of +13%MoM, despite increase of PKR 3.56/ltr in domestic price for the month of Mar-18. We believe MS demand to remain strong owing to a) increasing automobile sales, and, b) CNG curtailment. During the month, APL and HASCOL led the growth by +28YoY and +3%YoY rise while SHEL remain laggard posting a decline of 11%YoY.

#### HSD; Demand remains high on rising commercial transportation

HSD sales augmented by +9%YoY to 0.73mn Ton in Mar-18, while on monthly basis volumes increased by +24%MoM. In our view, demand for HSD is anticipated to remain strong owing to improving outlook of commercial transportation as infrastructure development projects pace up under CPEC. For HSD, APL and HASCOL led the chart by +37%YoY and +29%YoY growth in volumes.

#### FO; Closure of small inefficient FO based plants

FO volumes depicted a significant decline of 46%YoY to 0.37mn Ton in Mar-18 as Government of Pakistan (GoP) abruptly directed closure of inefficient FO based IPPs in Nov-17. However, on monthly basis, FO volumes posted a growth of +49%MoM as few FO based plants resumed operations as summer demand picks up while new LNG plants still remain closed due to technical issues. As a result we expect FO based power plants to resume operation from Apr-18 onwards to fulfill supply shortage. For FO, HASCOL and APL led the growth by posting +26%YoY and +12%YoY jump in sales respectively, while all other OMCs

**Exhibit: MS Market Share - Company wise (9MFY18)****Exhibit: HSD Market Share - Company wise (9MFY18)****Exhibit: FO Market Share - Company wise (9MFY18)**

Source: Company Financials, IGI Research

witnessed a drop in volumes. However, on monthly basis APL and PSO led the growth by posting a +92%MoM and +54%MoM rise in volumes.

**Outlook**

While coal/LNG projects start to commence power generation and GoP's decision to shut down FO based power plants leading to lower demand for FO, we believe 3.0-3.5mn Mton of FO demand to remain owing to continuation of efficient FO based power plants to assure smooth operation of energy chain and meet summer demand and supply shortfall. With APL expanding its storage capacity which has led to increase in market share for MS and HSD, we prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact. Further with disbursement of nearly PKR 80bn and PKR 40-50bn to be injected in power sector to ease cash constraints, we highlight PSO to benefit most in terms of easing working capital.

**Recommendation**

We maintain our "BUY" call on PSO and APL with our Dec-18 target prices of PKR 385/share and PKR 677/share respectively, offering +17% and +15% upside from their last closing.

Exhibit:

**OMC's Monthly Sales Volume (Mar-18)**

000'tons	Mar-18	MoM	Mar-17	YoY	1QCY18	YoY	FY18TD	YoY
Industry								
MS	597.9	13%	568.1	5%	1,716.5	6%	5,390.3	9%
HSD	730.0	24%	672.5	9%	2,027.7	6%	6,725.6	10%
FO	368.6	49%	679.2	-46%	1,009.3	-49%	5,281.0	-24%
Others	91.9	2%	95.5	-4%	284.6	6%	811.4	5%
Total	1,788.4	23%	2,015.3	-11%	5,038.2	-13%	18,208.2	-3%
PSO								
MS	210.7	13%	213.4	-1%	619.0	1%	2,183.5	12%
HSD	263.8	13%	272.9	-3%	790.5	-3%	2,957.9	5%
FO	154.2	54%	488.8	-68%	456.1	-69%	3,600.1	-29%
Others	73.2	-3%	69.3	6%	234.3	20%	666.0	20%
Total	701.8	18%	1,044.4	-33%	2,099.8	-32%	9,407.6	-10%
APL								
MS	59.5	25%	46.3	28%	158.0	20%	458.5	11%
HSD	89.1	57%	65.0	37%	203.0	5%	612.8	8%
FO	57.9	92%	51.5	12%	130.4	-11%	449.8	-1%
Others	4.3	17%	3.8	15%	12.4	5%	36.5	3%
Total	210.7	53%	166.6	26%	503.9	4%	1,557.6	6%
HASCOL								
MS	72.1	5%	70.1	3%	219.7	13%	693.0	45%
HSD	107.2	14%	83.0	29%	309.6	36%	969.5	55%
FO	64.6	34%	51.1	26%	166.5	22%	452.3	2%
Others	0.7	21%	0.3	163%	1.9	192%	6.5	870%
Total	244.6	16%	204.4	20%	697.8	25%	2,121.3	37%
SHEL								
MS	80.8	12%	91.2	-11%	227.4	-13%	667.4	-18%
HSD	52.6	12%	92.5	-43%	151.8	-35%	445.2	-40%
FO	-	0%	3.2	n/m	-	-100%	1.6	-97%
Others	7.7	3%	19.4	-60%	23.4	-56%	70.8	-50%
Total	141.0	12%	206.2	-32%	402.6	-27%	1,185.1	-33%

Source: IGI Research

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**Time Horizon:** Dec – 2018

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