

Day Break

Friday, 03 August 2018

Sector Update

OMC Sales Data for Jul-18

PSO Volumes (000' tons)

	Jul-18	YoY	CY18TD	YoY
MS	226.6	-8%	1,559.3	2%
HSD	228.3	-27%	1,914.9	-8%
FO	145.7	-77%	1,849.5	-53%
Total	647.6	-49%	5,745.1	-28%

HASCOL Volumes (000' tons)

	Jul-18	YoY	CY18TD	YoY
MS	70.7	-15%	528.3	8%
HSD	89.4	-25%	744.4	15%
FO	66.3	30%	417.4	20%
Total	229.0	-10%	1,697.4	14%

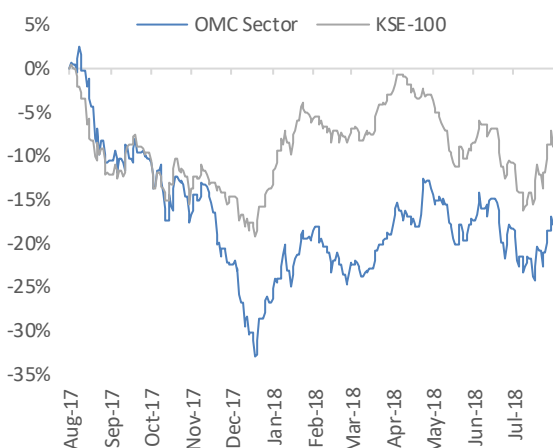
SHEL Volumes (000' tons)

	Jul-18	YoY	CY18TD	YoY
MS	75.2	11%	545.9	-9%
HSD	44.7	-13%	364.2	-35%
FO	0.0	n/m	0.0	-100%
Total	124.9	-2%	965.7	-24%

APL Volumes (000' tons)

	Jul-18	YoY	CY18TD	YoY
MS	61.9	8%	399.1	17%
HSD	60.6	-26%	474.1	-10%
FO	44.0	-26%	362.9	-9%
Total	170.1	-16%	1,264.9	-2%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

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

Oil & Gas – Marketing Companies

Jul-18: Volumes down by 29%YoY in Jul-18; Price hikes slowing down retail segment's momentum

- Industry volumes for oil marketing companies for the month of Jul-18 witnessed a decline of 29%YoY to 1.64mn ton bringing industry volumes for CY18TD to 12.89mn ton down by 13%YoY growth. To highlight, SHEL and HASCOL led the charts by posting 2%YoY and 10%YoY drop in sales during Jul-18,
- MS sales inched down by 1%YoY in Jul-18, while on monthly basis, volumes remained flat at to 0.61mn ton. HSD sales dropped by 19%YoY to 0.61mn ton in Jul-18, whereas on monthly basis volumes inched up by +4%MoM. The drop in volumes is likely owed to slowed commercial transport during election period and recent increase in HSD prices in the last few months where HSD prices are up by +30% since Dec-17. FO volumes depicted a significant decline of 59%YoY to 0.35mn ton in Jul-18 as demand remained subdued owing to new LNG and Coal plants commenced operations,
- We maintain PSO and APL as our top pick with our Dec-18 target price of PKR 407.0/share and PKR 740.3/share offering +29.1% and +28.6% upside respectively from its last close. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 379.7/share.

Volumes depict 29%YoY decline in Jul-18 to 1.64mn ton

Industry volumes for oil marketing companies for the month of Jul-18 witnessed a decline of 29%YoY to 1.64mn ton bringing industry volumes for CY18TD to 12.89mn ton down by 13%YoY growth. Motor Spirit (MS) sales registered a drop of 1%YoY during Jul-18, while Furnace Oil (FO)/High Speed Diesel (HSD) volumes reported a substantial decline of 59%/19%YoY. On a monthly basis, industry volumes plummeted by 14%MoM in Jul-18 on the back of 46%MoM decline in FO sales. For CY18TD, volumes decreased owing to 39%/2%YoY contraction in FO/HSD sales. To highlight, SHEL and HASCOL led the charts by posting only 2%YoY and 10%YoY drop in sales during Jul-18.

MS; Demand steering slightly to CNG amidst inflated prices, SHEL and APL stand tall

MS sales inched down by 1%YoY in Jul-18, while on monthly basis, volumes remained flat at to 0.61mn ton on the back of PKR 7.54/ltr increase in price initially which was later reduced by PKR 4.26/ltr to PKR 95.24/ltr on 8th Jul-18. For CY18TD, MS volumes are up by +6%YoY to 4.23mn ton on the back of a) rise in automobile sales, b) rise in CNG prices and, c) CNG curtailment. During Jul-18, SHEL and APL led the chart by posting +11%YoY and +8%YoY growth, while HASCOL and PSO remain laggard with a decline of 15%YoY and 8%YoY respectively.

HSD; Hike in domestic prices taking its toll on sales

HSD sales dropped by 19%YoY to 0.61mn ton in Jul-18, whereas on monthly basis volumes inched up by +4%MoM. The drop in volumes is likely owed to slowed commercial transport during election period and recent increase in HSD prices in the last few months where HSD prices are up by +30% since Dec-17. This brings total CY18TD sales at 4.89mn ton down by meagre 2%YoY. For the month of Jul-18, HASCOL, APL and PSO recorded 25%YoY, 26%YoY and 27%YoY decline in volumes respectively, while SHEL reported a drop of 13%YoY during Jul-18.

FO; Lower generation dragged FO volumes down in Jul-18, HASCOL in the lead

FO volumes depicted a significant decline of 59%YoY to 0.35mn ton in Jul-18 as demand remained subdued owing to new LNG and Coal plants commenced operations. Similarly, on sequential basis, FO volumes dropped by 46%MoM as summer demand slowed down and Hydel generation picked up pace. As a result, total FO volumes are down by 39%YoY in CY18TD to 3.23mn ton. For the month of Jul-18, PSO, APL and HASCOL witnessed a drop of 77%YoY, 26%YoY and 25%YoY in volumes, while SHEL recorded 37 ton sale of FO after 12months.

Exhibit: MS Market Share - Company wise (CY18TD)

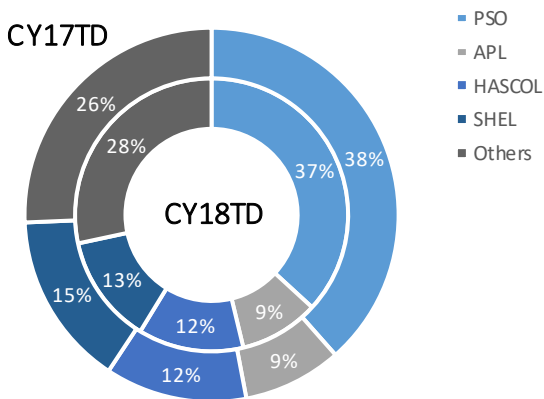


Exhibit: HSD Market Share - Company wise (CY18TD)

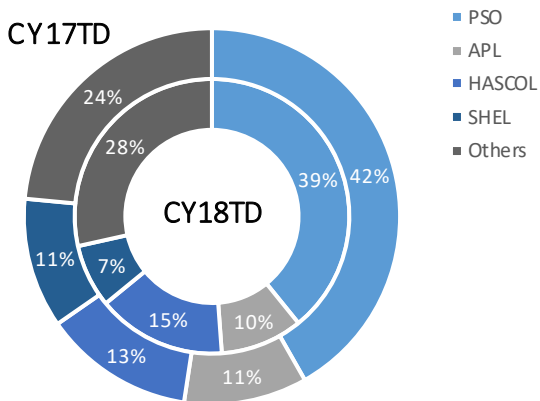
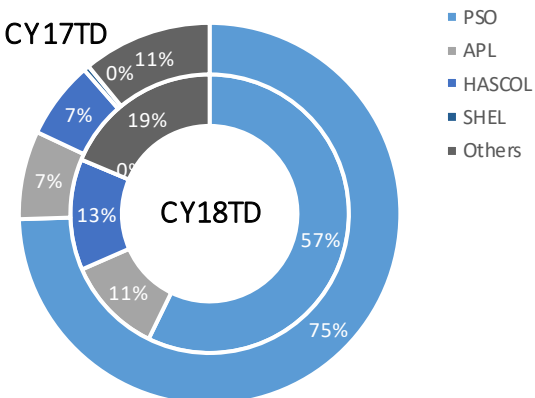


Exhibit: FO Market Share - Company wise (CY18TD)



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 3.0-3.5mn ton 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 its 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. Furthermore, with the new Government devising and evaluating new strategies to eliminate circular debt, any successful measures undertaken by the Ministry of Energy would benefit PSO.

Recommendation

We maintain PSO and APL as our top pick with our Dec-18 target price of PKR 688.1/share and PKR 383.5/share offering +25.2% and +16.4% upside respectively from its last close. PSO/APL are currently trading at FY19F P/E of 8.0x/5.8x and offer a dividend yield of 9.1%/6.4%. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 350.9/share offering an upside of +13.3% from last close.

Exhibit:

OMC's Monthly Sales Volume (Jul-18)

000'tons	Jul-18	Jun-18	MoM	Jul-17	YoY	CY18TD	CY17TD	YoY
Industry								
MS	614.0	614.1	0%	617.2	-1%	4,233.1	3,992.4	6%
HSD	614.1	589.2	4%	755.3	-19%	4,889.9	4,987.4	-2%
FO	350.7	645.4	-46%	856.1	-59%	3,232.4	5,308.5	-39%
Others	61.1	54.7	12%	79.0	-23%	538.8	600.9	-10%
Total	1,639.9	1,903.3	-14%	2,307.6	-29%	12,894.3	14,889.1	-13%
PSO								
MS	226.6	232.9	-3%	246.9	-8%	1,559.3	1,536.1	2%
HSD	228.3	227.9	0%	312.2	-27%	1,914.9	2,083.8	-8%
FO	145.7	439.2	-67%	641.9	-77%	1,849.5	3,957.1	-53%
Others	47.0	39.8	18%	62.6	-25%	421.5	455.2	-7%
Total	647.6	939.8	-31%	1,263.6	-49%	5,745.1	8,032.2	-28%
APL								
MS	61.9	59.7	4%	57.1	8%	399.1	341.0	17%
HSD	60.6	58.5	4%	81.8	-26%	474.1	528.4	-10%
FO	44.0	53.3	-17%	59.2	-26%	362.9	397.4	-9%
Others	3.6	4.4	-17%	4.5	-20%	28.9	28.4	2%
Total	170.1	175.8	-3%	202.6	-16%	1,264.9	1,295.1	-2%
HASCOL								
MS	70.7	62.0	14%	82.7	-15%	528.3	489.9	8%
HSD	89.4	72.9	23%	119.4	-25%	744.4	645.3	15%
FO	66.3	59.6	11%	50.9	30%	417.4	348.0	20%
Others	2.7	0.9	191%	0.8	252%	7.1	2.7	164%
Total	229.0	195.3	17%	253.8	-10%	1,697.4	1,486.0	14%
SHEL								
MS	75.2	77.5	-3%	67.6	11%	545.9	601.6	-9%
HSD	44.7	42.1	6%	51.2	-13%	364.2	557.7	-35%
FO	0.0	-	0%	1.6	n/m	0.0	24.8	-100%
Others	5.0	6.5	-23%	7.3	-31%	55.5	93.8	-41%
Total	124.9	126.1	-1%	127.7	-2%	965.7	1,277.9	-24%

Source: IGI Research

Source: Company Financials, IGI Research

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Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Lahore Office

5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office

Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Stock Exchange Office

Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 324262651-2
Fax: (+92-21) 32429607

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762