

Day Break

Friday, 03 May 2019

Sector Update

OMC Sales Data for Apr-19

MS Volumes (000' tons)

	Apr-19	YoY	10MFY19	YoY
PSO	268.0	14%	2,282.8	-6%
APL	64.1	6%	593.9	14%
HASCOL	47.4	-53%	605.6	-24%
SHEL	87.4	7%	779.8	4%
Industry	676.6	4%	6,200.6	3%

HSD Volumes (000' tons)

	Apr-19	YoY	10MFY19	YoY
PSO	261.9	-14%	2,325.2	-29%
APL	64.0	-15%	639.2	-7%
HASCOL	56.2	-55%	760.7	-30%
SHEL	51.4	-11%	452.7	-10%
Industry	650.7	-16%	6,055.9	-19%

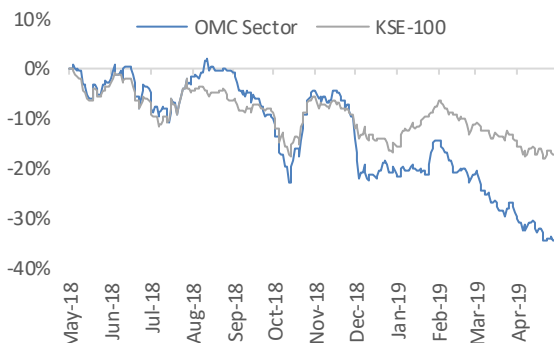
FO Volumes (000' tons)

	Apr-19	YoY	10MFY19	YoY
PSO	153.9	-16%	1,132.6	-70%
APL	39.2	-40%	355.0	-31%
HASCOL	19.1	-64%	348.1	-31%
SHEL	-	n/m	0.6	-61%
Industry	274.4	-26%	2,445.4	-57%

Others Volumes (000' tons)

	Apr-19	YoY	10MFY19	YoY
PSO	49.1	-2%	485.1	-32%
APL	3.5	-3%	37.8	-6%
HASCOL	0.4	-50%	6.4	-12%
SHEL	2.1	-86%	29.9	-65%
Industry	57.3	-21%	583.0	-34%

Relative Performance to KSE 100



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Oil & Gas – Marketing Companies

Apr-19: Volumes drop 11%YoY as economic slowdown and change in energy mix woes on HSD/FO sales

- Industry volumes for oil marketing companies for the month of Apr-19 witnessed a decline of 11%YoY to 1.66mn ton bringing industry volumes for 10MFY19 to 15.28mn ton down by 24%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 26%/16%YoY during Apr-19, while Motor Spirit (MS) increased by +4%YoY,
- MS sales augmented by +4%YoY in Apr-19, while on sequential basis, volumes inched up by +5%MoM to 0.68mn 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 16%YoY to 0.65mn ton in Apr-19, while on monthly basis volumes are up by +13%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 26%YoY to 0.27mn ton in Apr-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 BUY stance on APL, PSO and HASCOL with our Dec-19 target prices of PKR 492.3/share, PKR 250.2/share and PKR 124.8/share offering +38%, +32% and +31% upside respectively from its last close.

Volumes depict 11%YoY decline in Apr-19 to 1.66mn ton

Industry volumes for oil marketing companies for the month of Apr-19 witnessed a decline of 11%YoY to 1.66mn ton bringing industry volumes for 10MFY19 to 15.28mn ton down by 24%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 26%/16%YoY during Apr-19, while Motor Spirit (MS) increased by +4%YoY. On a monthly basis, industry volumes picked up by +14%MoM in Apr-19 on the back of +48%/+13%/+5%MoM incline in FO/HSD/MS sales. For 10MFY19, volumes decreased owing to 57%/19%YoY contraction in FO/HSD sales. To highlight, PSO/SHEL recorded 5%/9%YoY drop in sales, while HASCOL and APL witnessed 56%YoY and 16%YoY attrition in sales during Apr-19.

MS; Volumes up by +4%YoY during Apr-19, PSO and SHEL led the way

MS sales augmented by +4%YoY in Apr-19, while on sequential basis, volumes inched up by +5%MoM to 0.68mn ton likely on the back of higher demand during the end of the month in anticipation of a substantial price hike. For 10MFY19, MS volumes are up by +3%YoY to 6.20mn ton. During Apr-19, PSO, SHEL and APL led the chart by posting +14%YoY, +7%YoY and +6%YoY growth respectively, while HASCOL registered 53%YoY decline in sales.

HSD; Grey market and economic slowdown hurting sales however PSO continues to grab market share in Apr-19

HSD sales dropped down by 16%YoY to 0.65mn ton in Apr-19, while on monthly basis volumes are up by +13%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 10MFY19 sales at 6.06mn ton down by 19%YoY. For the month of Apr-19, SHEL/PSO posted 11%/14%YoY decline while HASCOL and APL remain laggards with a decline of 55%YoY and 15%YoY respectively. However, despite the decline PSO and SHEL were able to retain their market share at 40% and 8% respectively during Apr-19.

FO; Lower generation on FO dragged volumes down by 26%YoY in Apr-19

FO volumes depicted a decline of 26%YoY to 0.27mn ton in Apr-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 +48%MoM. As a result, total FO volumes are down by 57%YoY in 10MFY19 to 2.45mn ton. For the month of Apr-19, PSO, APL and HASCOL reported 16%YoY, 40%YoY and 64%YoY drop in sales respectively.

Exhibit: MS Market Share - Company wise (10MFY19)

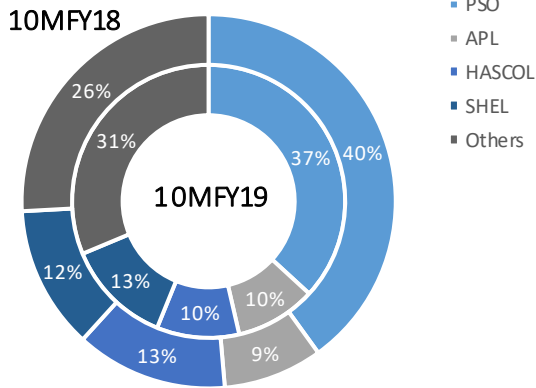


Exhibit: HSD Market Share - Company wise (10MFY19)

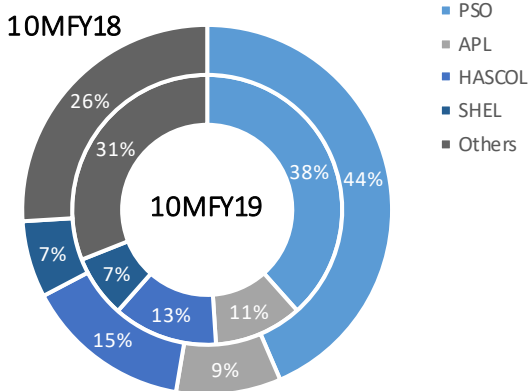
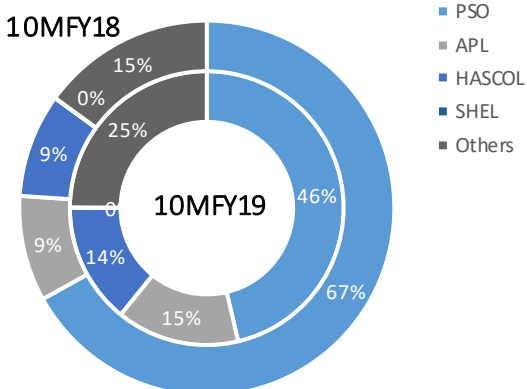


Exhibit: FO Market Share - Company wise (10MFY19)



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. 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.

Recommendation

We maintain BUY stance on APL, PSO and HASCOL with our Dec-19 target prices of PKR 492.3/share, PKR 250.2/share and PKR 124.8/share offering +38%, +32% and +31% upside respectively from its last close.

Exhibit:

OMC's Monthly Sales Volume (Apr-19)

000'tons	Apr-19	Mar-19	MoM	Apr-18	YoY	10MFY19	10MFY18	YoY
Industry								
MS	676.6	645.5	5%	651.3	4%	6,200.6	6,041.6	3%
HSD	650.7	574.8	13%	770.1	-16%	6,055.9	7,495.6	-19%
FO	274.4	185.0	48%	369.9	-26%	2,445.4	5,650.9	-57%
Others	57.3	54.6	5%	72.7	-21%	583.0	884.1	-34%
Total	1,659.0	1,459.9	14%	1,864.1	-11%	15,284.8	20,072.3	-24%
PSO								
MS	268.0	254.3	5%	234.5	14%	2,282.8	2,418.0	-6%
HSD	261.9	233.9	12%	305.3	-14%	2,325.2	3,263.2	-29%
FO	153.9	90.9	69%	182.4	-16%	1,132.6	3,782.5	-70%
Others	49.1	46.5	6%	50.3	-2%	485.1	716.3	-32%
Total	733.0	625.6	17%	772.4	-5%	6,225.7	10,180.0	-39%
APL								
MS	64.1	58.8	9%	60.3	6%	593.9	518.8	14%
HSD	64.0	65.9	-3%	75.2	-15%	639.2	688.0	-7%
FO	39.2	29.7	32%	64.9	-40%	355.0	514.7	-31%
Others	3.5	3.7	-5%	3.6	-3%	37.8	40.1	-6%
Total	170.8	158.1	8%	203.9	-16%	1,625.8	1,761.5	-8%
HASCOL								
MS	47.4	52.3	-9%	101.6	-53%	605.6	794.6	-24%
HSD	56.2	54.8	2%	123.9	-55%	760.7	1,093.4	-30%
FO	19.1	15.9	20%	52.5	-64%	348.1	504.8	-31%
Others	0.4	0.4	-5%	0.8	-50%	6.4	7.2	-12%
Total	123.1	123.4	0%	278.7	-56%	1,720.8	2,400.0	-28%
SHEL								
MS	87.4	82.7	6%	81.9	7%	779.8	749.3	4%
HSD	51.4	47.1	9%	57.8	-11%	452.7	503.0	-10%
FO	-	-	0%	-	n/m	0.6	1.6	-61%
Others	2.1	1.7	24%	14.4	-86%	29.9	85.3	-65%
Total	140.8	131.4	7%	154.1	-9%	1,263.1	1,339.2	-6%

Source: IGI Research

Source: Company Financials, IGI Research

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Time Horizon: Dec – 2019

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(Discounted Cash Flow)

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