

Day Break

Wednesday, 03 October 2018

Sector Update

OMC Sales Data for Sep-18

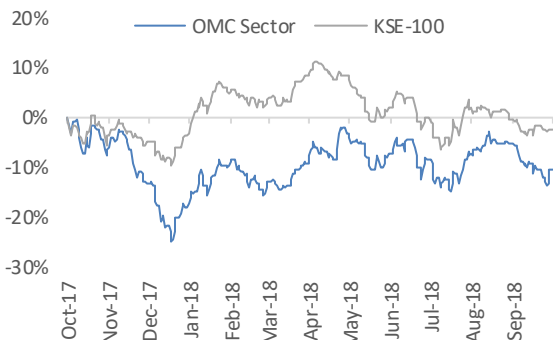
| MS Volumes (000' tons) | | | | |
|------------------------|--------|-----|---------|------|
| | Sep-18 | YoY | 1QFY19 | YoY |
| PSO | 274.6 | -8% | 731.2 | -13% |
| APL | 61.3 | 19% | 185.5 | 17% |
| HASCOL | 74.0 | -5% | 197.9 | -20% |
| SHEL | 80.3 | 12% | 230.2 | 6% |
| Industry | 676.3 | 6% | 1,896.3 | 1% |

| HSD Volumes (000' tons) | | | | |
|-------------------------|--------|-----|---------|------|
| | Sep-18 | YoY | 1QFY19 | YoY |
| PSO | 270.1 | -7% | 680.4 | -32% |
| APL | 69.4 | 8% | 196.2 | -6% |
| HASCOL | 129.0 | 38% | 273.9 | -15% |
| SHEL | 48.7 | 15% | 131.6 | -7% |
| Industry | 719.3 | 7% | 1,826.1 | -19% |

| FO Volumes (000' tons) | | | | |
|------------------------|--------|------|--------|------|
| | Sep-18 | YoY | 1QFY19 | YoY |
| PSO | 142.3 | -76% | 308.4 | -84% |
| APL | 43.0 | -15% | 135.8 | -26% |
| HASCOL | 48.3 | -5% | 160.5 | 0% |
| SHEL | 0.1 | n/m | 0.1 | -91% |
| Industry | 307.4 | -60% | 848.7 | -67% |

| Others Volumes (000' tons) | | | | |
|----------------------------|--------|------|--------|------|
| | Sep-18 | YoY | 1QFY19 | YoY |
| PSO | 49.4 | -31% | 143.8 | -33% |
| APL | 3.6 | -6% | 11.2 | -12% |
| HASCOL | 0.4 | -52% | 3.5 | 56% |
| SHEL | 4.4 | -10% | 13.9 | -50% |
| Industry | 60.4 | -28% | 179.9 | -33% |

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Sep-18: Retail segment growth remained steady while FO dragged sales down by 18%YoY

- Industry volumes for oil marketing companies for the month of Sep-18 witnessed a decline of 18%YoY to 1.76mn ton bringing industry volumes for 1QFY19 to 4.75mn ton down by 32%YoY. To highlight, HASCOL, SHEL and APL led the charts by posting only +13%YoY, +12%YoY and +4%YoY growth in sales during Sep-18.
- MS sales increased by +6%YoY in Sep-18, while on sequential basis, volumes remained posted double digit growth of +12%MoM to 0.68mn ton. HSD sales inclined by +7%YoY to 0.72mn ton in Sep-18, whereas on monthly basis volumes are up substantially by +46%MoM. The increase in volumes is likely owed to Eid holidays in Sep-17 while on monthly basis volumes augmented due to slow down in commercial transport during Eid and Independence Day Holidays in Aug-18. FO volumes depicted a significant decline of 60%YoY to 0.31mn ton in Sep-18 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 HASCOL and PSO as our top pick with our Dec-18 target price of PKR 350.9/share and PKR 383.5/share offering +27.9% and +20.4% upside respectively from its last close. We also have a 'BUY' stance on APL with our Dec-18 target price of PKR 509.8/share offering an upside of +15.8% from last close.

Volumes depict 18%YoY decline in Sep-18 to 1.76mn ton

Industry volumes for oil marketing companies for the month of Sep-18 witnessed a decline of 18%YoY to 1.76mn ton bringing industry volumes for 1QFY19 to 4.75mn ton down by 32%YoY. Motor Spirit (MS)/ High Speed Diesel (HSD) sales registered growth of +6%/+7%YoY during Sep-18, while Furnace Oil (FO) volumes reported a substantial decline of 60%YoY. On a monthly basis, industry volumes augmented by +31%MoM in Sep-18 on the back of +61%/+46%/+12%MoM rise in FO/HSD/MS sales. For 1QFY19, volumes decreased owing to 67%/19%YoY contraction in FO/HSD sales. To highlight, HASCOL, SHEL and APL led the charts by posting only +13%YoY, +12%YoY and +4%YoY growth in sales during Sep-18.

MS; Volumes up by +6%YoY during Sep-18, APL stands tall

MS sales increased by +6%YoY in Sep-18, while on sequential basis, volumes remained posted double digit growth of +12%MoM to 0.68mn ton on the back of unchanged domestic price and public holidays last month, however higher prices still led to shift towards CNG. For 1QFY19, MS volumes are up by +1%YoY to 1.90mn ton. During Sep-18, APL and SHEL led the chart by posting +19%YoY and +12%YoY growth, while PSO and HASCOL remain laggards with a decline of 8%YoY and 5%YoY respectively.

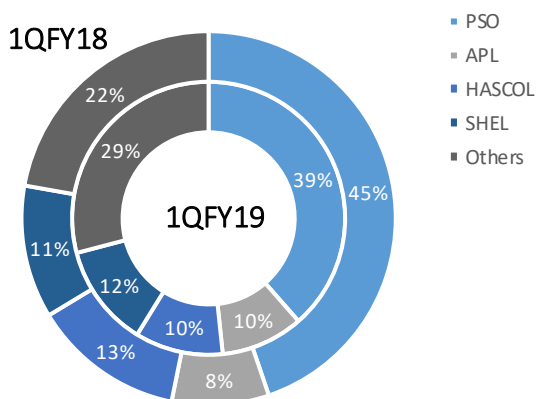
HSD; Steady growth momentum continues, HASCOL led the way

HSD sales inclined by +7%YoY to 0.72mn ton in Sep-18, whereas on monthly basis volumes are up substantially by +46%MoM. The increase in volumes is likely owed to Eid holidays in Sep-17 while on monthly basis volumes augmented due to slow down in commercial transport during Eid and Independence Day Holidays in Aug-18. This brings total 1QFY19 sales at 1.83mn ton down by 19%YoY. For the month of Sep-18, HASCOL, SHEL and APL recorded +38%YoY, +12%YoY and +8%YoY growth respectively, while PSO registered 7%YoY decline in volumes.

FO; Lower generation from inefficient plants further dragged FO volumes down in Sep-18

FO volumes depicted a significant decline of 60%YoY to 0.31mn ton in Sep-18 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. However, on sequential basis, FO volumes leaped up by +61%MoM as demand picked up. As a result, total FO volumes are down by 67%YoY in 1QFY19 to 0.85mn ton. For the month of Sep-18, PSO, APL and HASCOL witnessed a drop of 76%YoY, 15%YoY and 5%YoY in volumes, while SHEL recorded 108 ton sale of FO during the month.

Exhibit: MS Market Share - Company wise (1QFY19)



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 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. 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. Depressed FO sales maybe a blessing in disguise for Energy sector which would slow down accumulation of circular debt which would further be fueled as oil prices are on the rise. However, enhanced generation on LNG will also pose risk of rise in circular debt in the long term.

Recommendation

We maintain HASCOL and PSO as our top pick with our Dec-18 target price of PKR 350.9/share and PKR 383.5/share offering +27.9% and +20.4% upside respectively from its last close. HASCOL/PSO are currently trading at FY19F P/E of 18.5x/5.6x and offer a dividend yield of 3.6%/6.6%. We also have a 'BUY' stance on APL with our Dec-18 target price of PKR 509.8/share offering an upside of +15.8% from last close.

Exhibit: HSD Market Share - Company wise (1QFY19)

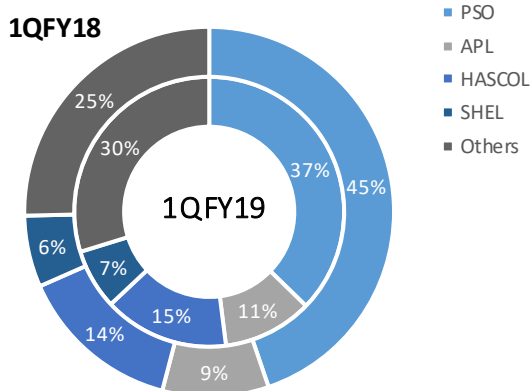


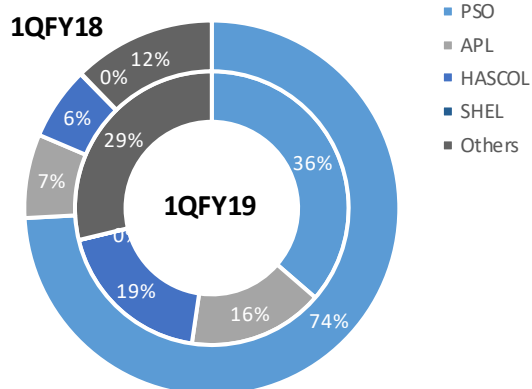
Exhibit:

OMC's Monthly Sales Volume (Sep-18)

| 000'tons | Sep-18 | Aug-18 | MoM | Sep-17 | YoY | 1QFY19 | YoY | 9MCY18 | YoY |
|-----------------|----------------|----------------|------------|----------------|-------------|----------------|-------------|-----------------|-------------|
| Industry | | | | | | | | | |
| MS | 676.3 | 606.1 | 12% | 637.3 | 6% | 1,896.3 | 1% | 5,515.4 | 5% |
| HSD | 719.3 | 492.7 | 46% | 670.3 | 7% | 1,826.1 | -19% | 6,101.9 | -6% |
| FO | 307.4 | 190.6 | 61% | 771.9 | -60% | 848.7 | -67% | 3,730.4 | -47% |
| Others | 60.4 | 58.4 | 3% | 84.0 | -28% | 179.9 | -33% | 657.6 | -17% |
| Total | 1,763.4 | 1,347.8 | 31% | 2,163.6 | -18% | 4,751.0 | -32% | 16,005.4 | -18% |
| PSO | | | | | | | | | |
| MS | 274.6 | 230.0 | 19% | 297.0 | -8% | 731.2 | -13% | 2,063.9 | -3% |
| HSD | 270.1 | 182.0 | 48% | 291.7 | -7% | 680.4 | -32% | 2,367.0 | -15% |
| FO | 142.3 | 20.3 | 600% | 585.4 | -76% | 308.4 | -84% | 2,012.1 | -61% |
| Others | 49.4 | 47.4 | 4% | 71.7 | -31% | 143.8 | -33% | 518.3 | -15% |
| Total | 736.5 | 479.8 | 54% | 1,245.8 | -41% | 1,863.8 | -53% | 6,961.4 | -35% |
| APL | | | | | | | | | |
| MS | 61.3 | 62.3 | -2% | 51.7 | 19% | 185.5 | 17% | 522.7 | 18% |
| HSD | 69.4 | 66.2 | 5% | 64.4 | 8% | 196.2 | -6% | 609.6 | -7% |
| FO | 43.0 | 48.7 | -12% | 50.5 | -15% | 135.8 | -26% | 454.6 | -13% |
| Others | 3.6 | 4.0 | -9% | 3.8 | -6% | 11.2 | -12% | 36.4 | -1% |
| Total | 177.3 | 181.1 | -2% | 170.4 | 4% | 528.6 | -6% | 1,623.3 | -2% |
| HASCOL | | | | | | | | | |
| MS | 74.0 | 53.3 | 39% | 78.1 | -5% | 197.9 | -20% | 655.6 | 0% |
| HSD | 129.0 | 55.6 | 132% | 93.3 | 38% | 273.9 | -15% | 929.0 | 10% |
| FO | 48.3 | 45.9 | 5% | 50.9 | -5% | 160.5 | 0% | 511.7 | 12% |
| Others | 0.4 | 0.4 | -11% | 0.8 | -52% | 3.5 | 56% | 7.9 | 90% |
| Total | 251.6 | 155.1 | 62% | 223.1 | 13% | 635.8 | -13% | 2,104.1 | 7% |
| SHEL | | | | | | | | | |
| MS | 80.3 | 74.8 | 7% | 71.8 | 12% | 230.2 | 6% | 701.0 | -7% |
| HSD | 48.7 | 38.2 | 27% | 42.5 | 15% | 131.6 | -7% | 451.1 | -30% |
| FO | 0.1 | - | 0% | - | n/m | 0.1 | -91% | 0.1 | -99% |
| Others | 4.4 | 4.5 | -1% | 4.9 | -10% | 13.9 | -50% | 64.4 | -44% |
| Total | 133.5 | 117.5 | 14% | 119.2 | 12% | 375.9 | -3% | 1,216.7 | -21% |

Source: IGI Research

Exhibit: FO Market Share - Company wise (1QFY19)



Source: Company Financials, IGI Research

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Time Horizon: Dec – 2018

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