

Day Break

Tuesday, 05 April 2016

Sector Update

OMCs	TP	Upside	P/E	D. Yld %
PSO	489	32%	7.80	3.20
HASCOL	170	18%	13.10	3.50

PSO Volumes (000' tons)

	Mar-16	YoY	9MFY16	YoY
MS	224.2	18%	1,768.9	13%
HSD	314.9	9%	2,511.6	-1%
FO	514.8	-4%	4,446.3	2%
Total	1,109.3	4%	9,206.2	4%

HASCOL Volumes (000' tons)

	Mar-16	YoY	Feb-16	MoM
MS	41.3	162%	36.5	13%
HSD	54.6	124%	47.8	14%
FO	40.9	-39%	43.6	-6%
Total	136.8	27%	128.0	7%

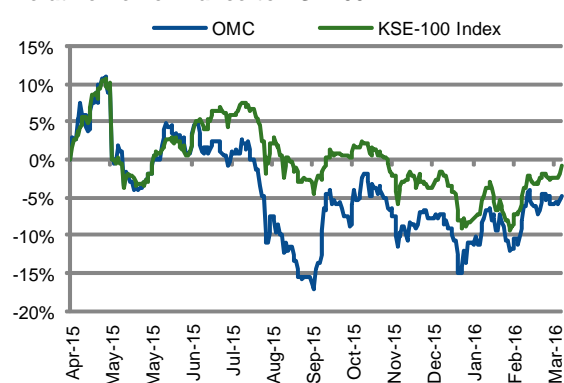
SHEL Volumes (000' tons)

	Mar-16	YoY	Feb-16	MoM
MS	99.4	26%	78.2	27%
HSD	94.9	12%	81.6	16%
FO	5.0	-2%	-	0%
Total	212.5	9%	159.8	33%

APL Volumes (000' tons)

	Mar-16	YoY	9MFY16	YoY
MS	35.4	27%	302.6	27%
HSD	41.4	-33%	536.2	-3%
FO	43.0	-39%	485.2	-37%
Total	122.0	-26%	1,354.7	-15%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil Marketing Companies

A New Milestone of 550KMt for MS as Volumes Jump +6%YoY in Mar-16

- Overall industry volumes depicted a growth of +6YoY/+14%MoM to 1.98mnTon in Mar-16. During the month, MS and HSD sales surged by +39%YoY/+22%MoM and +12%YoY/+16%MoM, respectively. However, FO sales dropped/grew by 12%YoY/+6%MoM in Mar-16.
- We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices and CNG curtailment, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity and, c) minimum inventory losses during 2HFY16.
- Among OMC players, we have a 'BUY' call on HASCOL with a Dec-16 TP of PKR 170/share (+18% upside), whereas PSO remains our top pick with Dec-16 TP of PKR 489/share, offering +32% upside from its last close.

Industry Sales Mount by +6%YoY in Mar-16

Overall industry volumes depicted a growth of +6YoY/+14%MoM to 1.98mnTon in Mar-16. During the month, MS and HSD sales surged by +39%YoY/+22%MoM and +12%YoY/+16%MoM, respectively. However, FO sales dropped/grew by 12%YoY/+6%MoM in Mar-16.

MS Volumes at Record High Crossing 550KMt

MS sales posted a strong growth of +39%YoY/+22%MoM to 0.55mnTon in Mar-16. We expect sales to remain upbeat in 2HFY16 based on our assumption of lower oil prices and likelihood of government passing on the benefit to end consumers owing to fixed GST per liter mechanism. Volumes for Apr-16 are likely to post healthy growth owing to lower price for MS with a marginal increase in price of PKR 1.50/ltr for the month.

HSD Volumes Depicted a Rise of +12%YoY

HSD sales augmented by +12%YoY/16%MoM to 0.65mnTon in Mar-16 owing to PKR 4.67/ltr cut in price. We believe demand for HSD to strengthen in 2HFY16 owing to expectation of prices staying on the lower side. Furthermore, improving commercial transportation should keep the volumes upbeat in the coming quarters. Recent flooding in the northern region could hurdle transportation leading to depressed HSD volumes in the coming month.

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Substantial Drop in FO Prices Leading to Growth in FO Sales

FO volumes depicted an impressive growth of +6%MoM to 0.71mnTon in Mar-16 due to lower FO prices and Hub Plant resuming to normal generation post conclusion of repair work on all four boilers. FO sales plunged by 12%YoY likely due to lower power generation through FO. Besides the current rebound in FO prices due to volatility in oil, we believe it is still cheaper source of fuel for power sector as compared to gas. According to our estimates, FO will remain a cheaper source of fuel comparatively as long as it stays below PKR 27,500/mt.

Exhibit: OMC's Monthly Sales Volume (Mar-16)

000'tons	Mar-16	Feb-16	MoM	Mar-15	YoY	9MFY16	9MFY15	YoY	3QFY16	3QFY15	YoY
Industry											
MS	550.6	452.1	22%	396.9	39%	4,231.8	3,310.0	28%	1,464.8	1,247.7	17%
HSD	646.0	557.9	16%	578.7	12%	5,387.3	5,198.6	4%	1,796.4	1,749.7	3%
FO	713.0	670.4	6%	806.5	-12%	6,214.2	6,638.4	-6%	2,145.0	2,197.6	-2%
Others	74.2	54.8	35%	81.5	-9%	678.5	716.9	-5%	203.1	227.4	-11%
Total	1,983.8	1,735.3	14%	1,863.6	6%	16,511.7	15,864.0	4%	5,609.3	5,422.3	3%
PSO											
MS	224.2	173.6	29%	190.5	18%	1,768.9	1,561.7	13%	557.6	598.7	-7%
HSD	314.9	247.5	27%	288.6	9%	2,511.6	2,546.8	-1%	801.2	864.0	-7%
FO	514.8	471.5	9%	539.0	-4%	4,446.3	4,379.8	2%	1,532.8	1,385.7	11%
Others	55.4	51.1	8%	44.3	25%	479.5	405.2	18%	166.1	133.4	25%
Total	1,109.3	943.7	18%	1,062.4	4%	9,206.2	8,893.5	4%	3,057.6	2,981.8	3%
APL											
MS	35.4	43.1	-18%	27.9	27%	302.6	238.3	27%	119.3	89.9	33%
HSD	41.4	51.3	-19%	61.9	-33%	536.2	555.4	-3%	161.9	192.0	-16%
FO	43.0	52.3	-18%	70.1	-39%	485.2	767.2	-37%	152.2	229.9	-34%
Others	2.2	2.6	-14%	4.1	-46%	30.8	29.2	5%	8.2	10.8	-24%
Total	122.0	149.3	-18%	164.0	-26%	1,354.7	1,590.0	-15%	441.5	522.6	-16%
HASCOL											
MS	41.3	36.5	13%	15.8	162%	303.3	150.2	102%	118.7	57.7	106%
HSD	54.6	47.8	14%	24.4	124%	441.1	306.7	44%	168.5	89.7	88%
FO	40.9	43.6	-6%	67.5	-39%	341.7	434.0	-21%	129.5	193.3	-33%
Others	-	-	0%	-	0%	-	-	0%	-	-	0%
Total	136.8	128.0	7%	107.6	27%	1,086.2	890.9	22%	416.7	340.7	22%
SHEL											
MS	99.4	78.2	27%	78.8	26%	802.5	655.0	23%	277.5	247.4	12%
HSD	94.9	81.6	16%	84.4	12%	780.3	767.2	2%	261.4	254.6	3%
FO	5.0	-	0%	5.1	-2%	40.5	60.5	-33%	6.3	19.9	-68%
Others	13.3	-	0%	26.5	-50%	143.1	182.8	-22%	22.3	62.5	-64%
Total	212.5	159.8	33%	194.7	9%	1,766.4	1,665.5	6%	567.5	584.4	-3%

Source: IGI Research

PSO Regains its Market Share as APL and HASCOL Lose Their Market Share

PSO regained its market share of MS to 41% during Mar-16 as compared to 38% in Feb-16, bringing 9MFY16 market share to 42%, whereas SHEL lost its market share by 100bps to 19%. HASCOL's market share increased to 7% in 9MFY16. As for HSD, PSO gained 500bps to 49% in Mar-16, bringing 9MFY16 market share to 47%, while APL and SHEL lost market share by 100bps each to 10% and 14%, respectively. HASCOL gained market to 8% in 9MFY16 from 6% in the corresponding period last year. PSO gained significant market share of FO in 9MFY16 to 72% from 66% in the same period last year while APL and HASCOL lost 400bps and 200bps to 8% and 5%, respectively.

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Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices and CNG curtailment, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity and, c) minimum inventory losses during 2HFY16. Among OMC players, we have a 'BUY' call on HASCOL with a Dec-16 TP of PKR 170/share (+18% upside), whereas PSO remains our top pick with Dec-16 TP of PKR 489/share, offering +32% upside from its last close.

Exhibit: Market Share - Company-wise

	Mar-16	Feb-16	Mar-15	9MFY16	9MFY15
MS					
PSO	41%	38%	48%	42%	47%
APL	6%	10%	7%	7%	7%
HASCOL	7%	8%	4%	7%	5%
SHEL	18%	17%	20%	19%	20%
Others	27%	27%	21%	25%	21%
HSD					
PSO	49%	44%	50%	47%	49%
APL	6%	9%	11%	10%	11%
HASCOL	8%	9%	4%	8%	6%
SHEL	15%	15%	15%	14%	15%
Others	22%	23%	21%	21%	20%
FO					
PSO	72%	70%	67%	72%	66%
APL	6%	8%	9%	8%	12%
HASCOL	6%	7%	8%	5%	7%
SHEL	1%	0%	1%	1%	1%
Others	15%	15%	15%	14%	15%

Source: IGI Research

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Discounted Cash Flow (DCF)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt

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