

# 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%

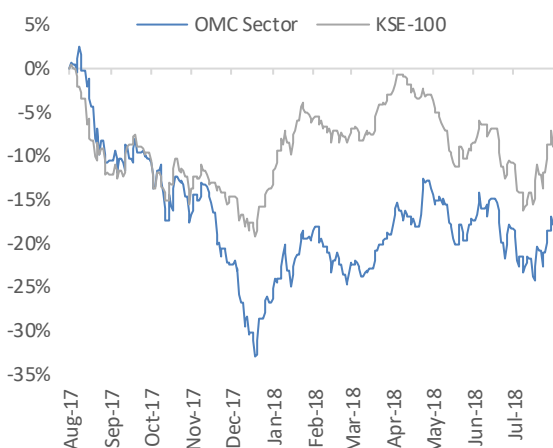
#### SHEL Volumes (000' tons)

	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

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## 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 8<sup>th</sup> 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.

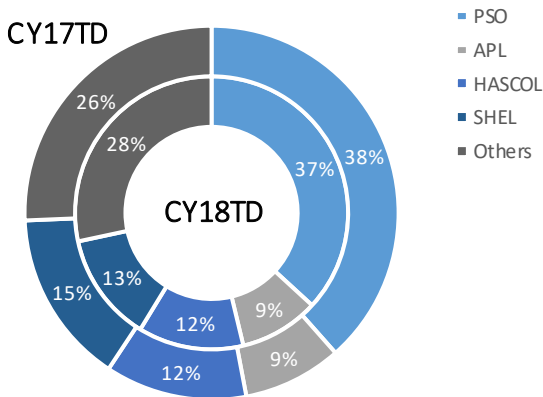
#### HSD; Hike in domestic prices taking its toll on sales

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.

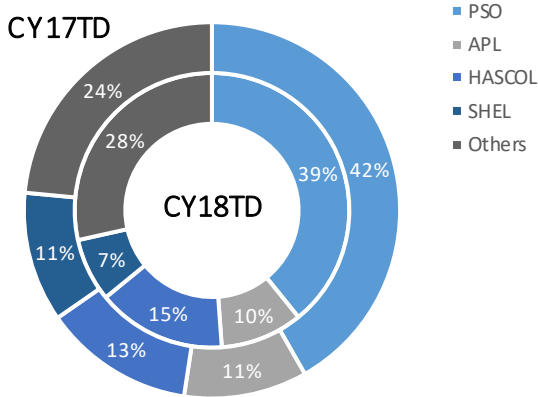
#### FO; Lower generation dragged FO volumes down in Jul-18, HASCOL in the lead

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.

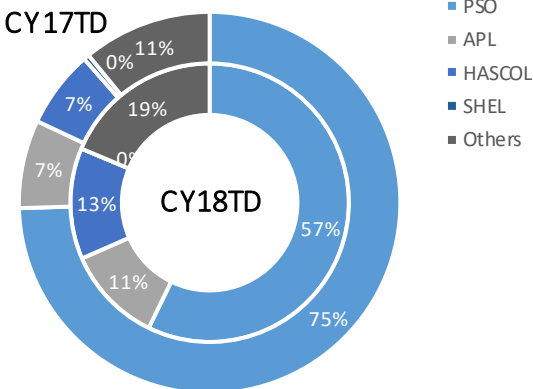
**Exhibit: MS Market Share - Company wise (CY18TD)**



**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
<b>Industry</b>								
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%
<b>PSO</b>								
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%
<b>APL</b>								
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%
<b>HASCOL</b>								
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%
<b>SHEL</b>								
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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