

Day Break

Monday, 06 November 2017

Sector Update

OMC Sales Data for Oct-17

PSO Volumes (000' tons)

	Oct-17	YoY	FY18TD	YoY
MS	255.9	1%	1,100.1	21%
HSD	373.4	-15%	1,381.0	15%
FO	675.7	6%	2,565.1	-5%
Total	1,379.0	0%	5,336.1	6%

HASCOL Volumes (000' tons)

	Oct-17	YoY	FY18TD	YoY
MS	84.4	121%	332.0	80%
HSD	127.5	109%	449.7	89%
FO	55.0	-14%	215.3	-5%
Total	267.7	64%	1,000.1	54%

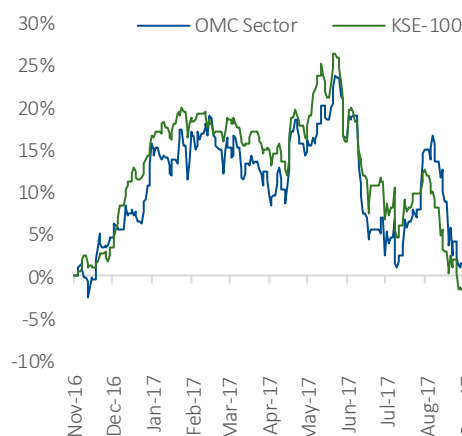
SHEL Volumes (000' tons)

	Oct-17	YoY	FY18TD	YoY
MS	75.7	-25%	292.5	-22%
HSD	49.3	-44%	190.1	-43%
FO	-	-100%	1.6	-95%
Total	130.8	-39%	517.7	-35%

APL Volumes (000' tons)

	Oct-17	YoY	FY18TD	YoY
MS	51.8	36%	210.0	10%
HSD	70.4	18%	279.2	12%
FO	60.3	12%	244.4	13%
Total	186.6	21%	750.5	11%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Oct-17: MS growth witnessing slowdown while HSD supporting growth in retail segment

- Industry volumes for oil marketing companies witnessed a growth of +3%YoY to 2.44mnTons during Oct-17 bringing industry volumes for FY18TD to 9.39mnTon up by +7%YoY. To highlight, APL and HASCOL led the growth by posting +21%YoY and +64%YoY growth during Oct-17;
- MS sales increased by +8%YoY to 0.62mnTon in Oct-17, on the back of increasing demand. HSD sales inched up by +1%YoY to 0.84mnTon in Oct-17, while on monthly basis volumes augmented by +25%MoM. FO volumes depicted a growth of +2%YoY to 0.89mnTon in Oct-17. On monthly basis, FO volumes posted a double digit growth of +15%MoM;
- We maintain our “BUY” call on PSO and HASCOL with our Jun-18 and Dec-17 target prices of PKR 441/share and PKR 320/share respectively, offering +24% and +19% upside from its last closing.

Volumes depict a +3%YoY rise in Oct-17 to 2.44mnTons

Industry volumes for oil marketing companies witnessed a growth of +3%YoY to 2.44mnTons during Oct-17 bringing industry volumes for FY18TD to 9.39mnTon up by +7%YoY. Motor Spirit (MS) sales posted a rise of +8%YoY during Oct-17, while High Speed Diesel (HSD)/Furnace Oil (FO) volumes reported a meagre growth of 1%/+2%YoY. On a monthly basis, industry volumes augmented by +13%MoM in Oct-17 on the back of increase in HSD/FO sales by +25%/+15%MoM. To highlight, APL and HASCOL led the growth by posting +21%YoY and +64%YoY growth during Oct-17.

MS; Keeping a hold on the rising demand

MS sales increased by +8%YoY to 0.62mnTon in Oct-17, on the back of increasing demand. On monthly basis volumes depicted a decline of 3%MoM, led by increase in domestic price for the month of Oct-17. We believe MS demand to remain strong owing to a) increasing automobile sales, b) steady prices and, c) CNG curtailment. During the month HASCOL and APL led the growth by +2.2xYoY and +36%YoY rise while SHEL remain laggard posting a decline of 25%YoY.

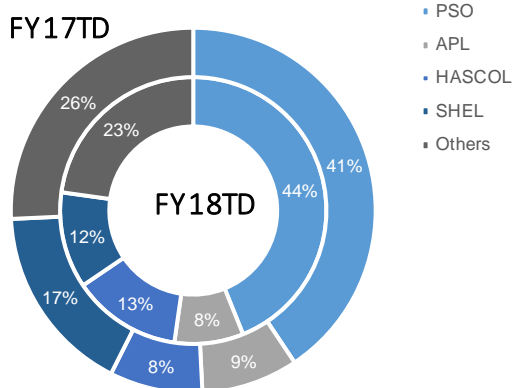
HSD; Demand remains high on rising commercial transportation

HSD sales inched up by +1%YoY to 0.84mnTon in Oct-17, while on monthly basis volumes augmented by +25%MoM as commercial transportation increased. In our view, demand for HSD is anticipated to remain strong owing to improving outlook of commercial transportation as infrastructure development projects pace up under CPEC. For HSD, HASCOL/APL led the chart by +2.1x/+18%YoY growth in volumes.

FO; Sales to remain steady on weaker demand outlook

FO volumes depicted a growth of +2%YoY to 0.89mnTon in Oct-17 as IPPs struggle to make overdue payments. On monthly basis, FO volumes posted a double digit growth of +15%MoM. For FO, APL/PSO led the growth by posting +12%/+6%YoY jump in sales. We expect steady demand for FO sales going forward, however Government of Pakistan (GoP) decision to close down FO based power plants may lead to substantial drop in demand for FO.

Exhibit: MS Market Share - Company wise (FY18TD)



Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS, b) deregulation of OMC and dealer margin for HSD from Nov-17 onwards, and c) upward revision in OMC margins by PKR 0.14/ltr for MS (yearly revision thereon linked with CPI). While coal/LNG projects start to commence power generation and GoP's decision to shut down FO based power plants leading to lower demand for FO, we believe PSO to hold its ground through increased LNG demand until LNG supply contract is shifted to Pakistan LNG. However, in retail segment we expect HASCOL to gain further market share through aggressive expansion as demand rises on CPEC projects gaining traction. With SHEL losing its market share, we expect PSO to regain its market share as company is expanding its storage capacity to ease supply chain issues and has been capturing SHEL's market share in recent months.

Recommendation

We maintain our "BUY" call on PSO and HASCOL with our Jun-18 and Dec-17 target prices of PKR 441/share and PKR 320/share respectively, offering +24% and +19% upside from its last closing.

Exhibit: HSD Market Share - Company wise (FY18TD)

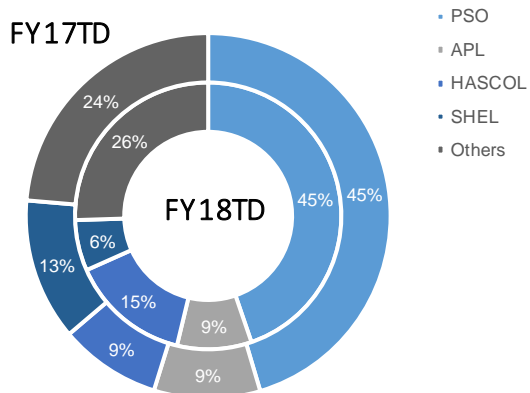


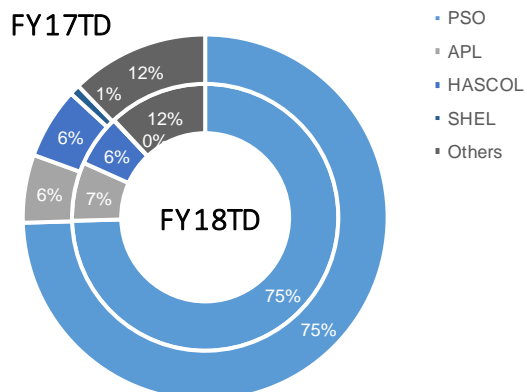
Exhibit:

OMC's Monthly Sales Volume (Oct-17)

	000'tons	Oct-17	MoM	Oct-16	YoY	CY17TD	YoY	FY18TD	YoY
Industry									
MS	621.3	-3%	573.5	8%	5,881.3	11%	2,506.1	12%	
HSD	838.2	25%	834.2	0%	7,319.4	8%	3,087.3	16%	
FO	891.5	15%	874.8	2%	7,891.6	-5%	3,439.2	-5%	
Others	87.6	4%	90.4	-3%	878.6	18%	356.7	12%	
Total	2,438.5	13%	2,372.8	3%	21,970.9	4%	9,389.3	7%	
PSO									
MS	255.9	-14%	252.2	1%	2,389.2	13%	1,100.1	21%	
HSD	373.4	28%	437.3	-15%	3,152.6	-2%	1,381.0	15%	
FO	675.7	15%	636.9	6%	5,880.3	-3%	2,565.1	-5%	
Others	74.0	3%	50.9	45%	682.6	24%	290.0	29%	
Total	1,379.0	11%	1,377.3	0%	12,104.7	1%	5,336.1	6%	
APL									
MS	51.8	0%	38.2	36%	493.9	17%	210.0	10%	
HSD	70.4	9%	59.5	18%	725.8	26%	279.2	12%	
FO	60.3	19%	53.9	12%	582.5	18%	244.4	13%	
Others	4.2	9%	2.8	47%	40.8	22%	16.9	11%	
Total	186.6	10%	154.4	21%	1,843.0	21%	750.5	11%	
HASCOL									
MS	84.4	8%	38.2	121%	739.2	71%	332.0	80%	
HSD	127.5	37%	61.0	109%	975.7	67%	449.7	89%	
FO	55.0	8%	64.0	-14%	512.4	2%	215.3	-5%	
Others	0.8	1%	-	0%	4.9	0%	3.0	0%	
Total	267.7	20%	163.2	64%	2,232.2	47%	1,000.1	54%	
SHEL									
MS	75.7	5%	101.5	-25%	826.5	-11%	292.5	-22%	
HSD	49.3	16%	88.0	-44%	696.6	-21%	190.1	-43%	
FO	-	0%	8.5	-100%	24.8	-57%	1.6	-95%	
Others	5.8	18%	17.9	-68%	120.0	-4%	33.5	-40%	
Total	130.8	10%	215.9	-39%	1,667.9	-16%	517.7	-35%	

Source: IGI Research

Exhibit: FO Market Share - Company wise (FY18TD)



Source: Company Financials, IGI Research

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Time Horizon: Jun – 2018

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