

Day Break

Thursday, 06 September 2018

Sector Update

OMC Sales Data for Aug-18

MS Volumes (000' tons)

	Aug-18	YoY	CY18TD	YoY
PSO	230.0	-23%	1,789.3	-3%
APL	62.3	26%	461.4	18%
HASCOL	53.3	-39%	581.6	1%
SHEL	74.8	-3%	620.7	-9%
Industry	606.1	-4%	4,839.2	5%

HSD Volumes (000' tons)

	Aug-18	YoY	CY18TD	YoY
PSO	182.0	-55%	2,097.0	-16%
APL	66.2	6%	540.2	-9%
HASCOL	55.6	-49%	800.0	6%
SHEL	38.2	-19%	402.4	-33%
Industry	492.7	-40%	5,382.6	-7%

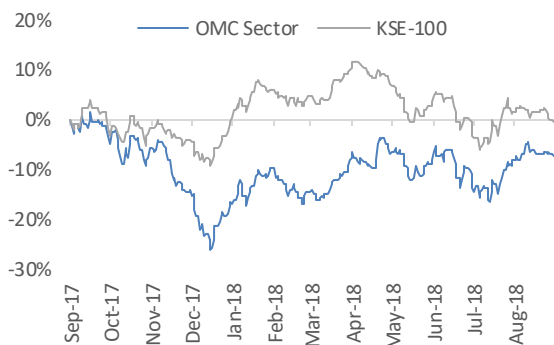
FO Volumes (000' tons)

	Aug-18	YoY	CY18TD	YoY
PSO	20.3	-97%	1,869.8	-60%
APL	48.7	-34%	411.6	-13%
HASCOL	45.9	-21%	463.3	14%
SHEL	-	n/m	0.0	-100%
Industry	190.6	-79%	3,423.0	-45%

Others Volumes (000' tons)

	Aug-18	YoY	CY18TD	YoY
PSO	47.4	-42%	468.8	-13%
APL	4.0	-11%	32.8	0%
HASCOL	0.4	-42%	7.6	121%
SHEL	4.5	-71%	60.0	-45%
Industry	58.4	-45%	597.2	-16%

Relative Performance to KSE 100



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Oil & Gas – Marketing Companies

Aug-18: Volumes down by 46%YoY as holidays worsen subdued growth momentum

- Industry volumes for oil marketing companies for the month of Aug-18 witnessed a decline of 46%YoY to 1.35mn ton bringing industry volumes for CY18TD to 14.24mn ton down by 18%YoY. To highlight, APL and SHEL led the charts by posting only 5%YoY and 16%YoY drop in sales during Aug-18,
- MS sales inched down by 4%YoY in Aug-18, while on monthly basis, volumes remained flat at 0.61mn ton. HSD sales dropped by 40%YoY to 0.49mn ton in Aug-18, whereas on monthly basis volumes are down by 20%MoM. The drop in volumes is likely owed to slow down in commercial transport during Eid and Independence Day Holidays. FO volumes depicted a significant decline of 79%YoY to 0.19mn ton in Aug-18 as demand remained subdued owing to lower demand and new low cost LNG/Coal plants operating at priority basis. Similarly, on sequential basis, FO volumes dropped by 46%MoM,
- We maintain APL and PSO as our top pick with our Dec-18 target price of PKR 688.1/share and PKR 383.5/share offering +11.7% and +12.2% upside respectively from its last close. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 350.9/share offering an upside of +19.7% from last close

Volumes depict 46%YoY decline in Aug-18 to 1.35mn ton

Industry volumes for oil marketing companies for the month of Aug-18 witnessed a decline of 46%YoY to 1.35mn ton bringing industry volumes for CY18TD to 14.24mn ton down by 18%YoY. Motor Spirit (MS) sales registered a drop of 4%YoY during Aug-18, while Furnace Oil (FO)/High Speed Diesel (HSD) volumes reported a substantial decline of 79%/40%YoY. On a monthly basis, industry volumes plummeted by 18%MoM in Aug-18 on the back of 46%/20%MoM decline in FO/HSD sales. For CY18TD, volumes decreased owing to 45%/7%YoY contraction in FO/HSD sales. To highlight, APL and SHEL led the charts by posting only 5%YoY and 16%YoY drop in sales during Aug-18.

MS; Volumes down by 4%YoY during Aug-18, APL stands tall

MS sales inched down by 4%YoY in Aug-18, while on monthly basis, volumes remained flat at 0.61mn ton on the back of unchanged domestic price, however higher prices still led to shift towards CNG. For CY18TD, MS volumes are up by +5%YoY to 4.84mn ton on the back of a) rise in automobile sales, b) rise in CNG prices and, c) CNG curtailment. During Aug-18, APL and HASCOL led the chart by posting +18%YoY and +1%YoY growth, while SHEL and PSO remain laggard with a decline of 9%YoY and 3%YoY respectively.

HSD; Eid holidays dragged Aug-18 sales down by 40%YoY, HASCOL led the way

HSD sales dropped by 40%YoY to 0.49mn ton in Aug-18, whereas on monthly basis volumes are down by 20%MoM. The drop in volumes is likely owed to slow down in commercial transport during Eid and Independence Day Holidays. This brings total CY18TD sales at 5.38mn ton down by 7%YoY. For the month of Aug-18, APL recorded +6%YoY growth, while PSO, HASCOL and SHEL registered 55%YoY, 49%YoY and 19%YoY decline in volumes respectively

FO; Lower generation dragged FO volumes down in Aug-18

FO volumes depicted a significant decline of 79%YoY to 0.19mn ton in Aug-18 as demand remained subdued owing to lower demand and new low cost LNG/Coal plants operating at priority basis. Similarly, on sequential basis, FO volumes dropped by 46%MoM. As a result, total FO volumes are down by 45%YoY in CY18TD to 3.42mn ton. For the month of Aug-18, PSO, APL and HASCOL witnessed a drop of 97%YoY, 34%YoY and 21%YoY in volumes, while SHEL recorded no sale of FO during the month.

Exhibit: MS Market Share - Company wise (CY18TD)

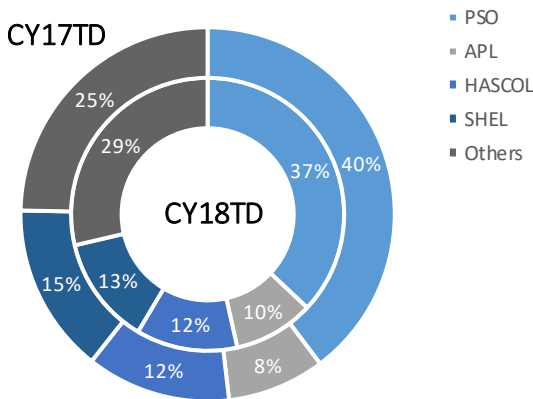


Exhibit: HSD Market Share - Company wise (CY18TD)

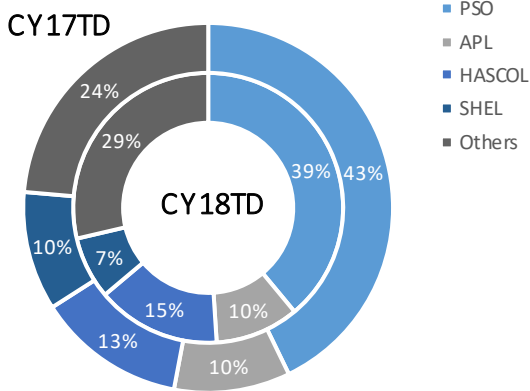
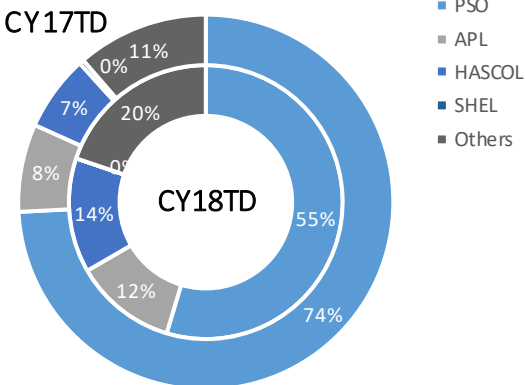


Exhibit: FO Market Share - Company wise (CY18TD)



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 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.

Recommendation

We maintain APL and PSO as our top pick with our Dec-18 target price of PKR 688.1/share and PKR 383.5/share offering +11.7% and +12.2% upside respectively from its last close. PSO/APL are currently trading at FY19F P/E of 9.0x/6.0x and offer a dividend yield of 8.1%/6.1%. We also have a 'BUY' stance on HASCOL with our Dec-18 target price of PKR 350.9/share offering an upside of +19.7% from last close.

Exhibit:

OMC's Monthly Sales Volume (Aug-18)

000'tons	Aug-18	Jul-18	MoM	Aug-17	YoY	CY18TD	CY17TD	YoY
Industry								
MS	606.1	614.0	-1%	630.3	-4%	4,839.2	4,622.7	5%
HSD	492.7	614.1	-20%	823.5	-40%	5,382.6	5,810.8	-7%
FO	190.6	350.7	-46%	919.8	-79%	3,423.0	6,228.2	-45%
Others	58.4	61.1	-4%	106.2	-45%	597.2	707.0	-16%
Total	1,347.8	1,639.9	-18%	2,479.6	-46%	14,242.1	17,368.8	-18%
PSO								
MS	230.0	226.6	2%	300.2	-23%	1,789.3	1,836.3	-3%
HSD	182.0	228.3	-20%	403.7	-55%	2,097.0	2,487.5	-16%
FO	20.3	145.7	-86%	662.1	-97%	1,869.8	4,619.2	-60%
Others	47.4	47.0	1%	81.7	-42%	468.8	536.9	-13%
Total	479.8	647.6	-26%	1,447.7	-67%	6,224.9	9,479.9	-34%
APL								
MS	62.3	61.9	1%	49.4	26%	461.4	390.4	18%
HSD	66.2	60.6	9%	62.7	6%	540.2	591.1	-9%
FO	48.7	44.0	11%	74.3	-34%	411.6	471.6	-13%
Others	4.0	3.6	10%	4.5	-11%	32.8	32.8	0%
Total	181.1	170.1	6%	190.8	-5%	1,446.0	1,486.0	-3%
HASCOL								
MS	53.3	70.7	-25%	86.8	-39%	581.6	576.7	1%
HSD	55.6	89.4	-38%	109.6	-49%	800.0	754.9	6%
FO	45.9	66.3	-31%	58.4	-21%	463.3	406.4	14%
Others	0.4	2.7	-85%	0.7	-42%	7.6	3.4	121%
Total	155.1	229.0	-32%	255.5	-39%	1,852.5	1,741.5	6%
SHEL								
MS	74.8	75.2	0%	77.3	-3%	620.7	678.9	-9%
HSD	38.2	44.7	-15%	47.1	-19%	402.4	604.8	-33%
FO	-	0.0	-100%	-	n/m	0.0	24.8	-100%
Others	4.5	5.0	-11%	15.5	-71%	60.0	109.3	-45%
Total	117.5	124.9	-6%	140.0	-16%	1,083.2	1,417.9	-24%

Source: IGI Research

Source: Company Financials, IGI Research

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Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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