

Day Break

Thursday, 07 September 2017

Sector Update

OMC Sales Data for Aug-17

PSO Volumes (000' tons)

	Aug-17	YoY	CY17TD	YoY
MS	300.2	45%	1,836.3	12%
HSD	400.7	56%	2,484.5	-2%
FO	661.4	-11%	4,618.5	-4%
Total	1,447.4	14%	9,479.6	1%

HASCOL Volumes (000' tons)

	Aug-17	YoY	CY17TD	YoY
MS	86.8	99%	576.7	74%
HSD	109.6	92%	754.9	69%
FO	58.4	7%	406.4	3%
Total	254.8	64%	1,740.8	48%

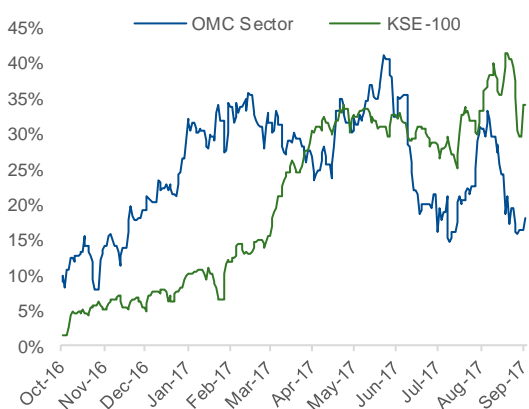
SHEL Volumes (000' tons)

	Aug-17	YoY	CY17TD	YoY
MS	77.5	-14%	679.1	-8%
HSD	43.9	-44%	601.5	-14%
FO	-	-100%	24.8	-42%
Total	132.0	-32%	1,409.9	-10%

APL Volumes (000' tons)

	Aug-17	YoY	CY17TD	YoY
MS	49.8	-5%	390.8	17%
HSD	62.9	-17%	591.3	30%
FO	72.5	35%	469.8	22%
Total	189.7	2%	1,484.8	24%

Relative Performance to KSE 100



Source: Bloomberg, PSX 100 & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas – Marketing Companies

Aug-17: OMC Volumes Shifting Gears in Retail Segment, HSD catching up with MS

- Industry volumes for oil marketing companies witnessed double digit growth of +11%YoY to 2.49mnTons during Aug-17 bringing industry volumes for CY17TD to 17.38mnTons up by +5%YoY. To highlight, PSO and HASCOL led the growth by posting +14%YoY and +64%YoY growth during Aug-17
- MS sales increased by +25%YoY to 0.68mnTon in Aug-17, on the back of increasing demand. HSD sales picked up substantially by +25%YoY to 0.80mnTon in Aug-17, while on monthly basis volumes augmented by +6%MoM as commercial transportation increases. FO volumes depicted a decline of 7%YoY to 0.91mnTon in Aug-17.
- We maintain our “BUY” call on HASCOL/PSO/APL with our Dec-17 target prices of PKR 430/share/ PKR 519/share/ PKR 817/share, respectively offering +39.5%/+21.5%/+27.4% upside from its last closing.

Volumes depict a +11%YoY rise in Aug-17 to 2.49mnTons

Industry volumes for oil marketing companies witnessed double digit growth of +11%YoY to 2.49mnTons during Aug-17 bringing industry volumes for CY17TD to 17.38mnTon up by +5%YoY. MS/HSD sales posted a healthy growth of +25%/+25%YoY during Aug-17, while FO volumes depressed by 7%YoY. On a monthly basis, industry volumes augmented by +8%MoM in Aug-17 on the back of increase in MS/HSD/FO sales by +10%/+6%/+6%MoM. To highlight, PSO and HASCOL led the growth by posting +14%YoY and +64%YoY growth during Aug-17.

MS; Keeping a hold on the rising demand with continuous double digit growth

MS sales increased by +25%YoY to 0.68mnTon in Aug-17, on the back of increasing demand. On monthly basis volumes depicted an increase of +10%MoM, supported by drop in domestic price for the month of Aug-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 PSO led the growth by +99%YoY and +45%YoY rise while SHEL remain laggard posting a decline of 14%YoY.

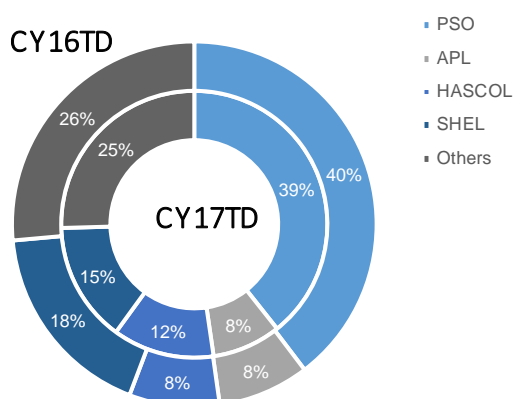
HSD; Demand remains high on rising commercial transportation

HSD sales picked up substantially by +25%YoY to 0.80mnTon in Aug-17, while on monthly basis volumes augmented by +6%MoM as commercial transportation increased on the back of infrastructure development projects picking up pace. 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 and likely steady prices as international oil prices remain range bound. For HSD, HASCOL/PSO led the chart by +92%/+56%YoY growth in volumes.

FO; Sales to remain steady on weaker demand outlook

FO volumes depicted a decline of 7%YoY to 0.91mnTon in Aug-17 as IPPs struggle to make overdue payments. Furthermore, with nearly 5,000MW of additional capacity expected to come online in 2017 (coal and LNG based) leading to shift in generation and lower demand for FO. To recall, Sahiwal Coal power plant came online in May-17. However, on monthly basis, FO volumes increased by +6%MoM.

Exhibit: MS Market Share - Company wise (CY17TD)



For FO, APL led the growth by posting +35%YoY jump in sales.

Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS as international oil prices remain under pressure leading to lower domestic prices, and b) upward revision in OMC margins by PKR 0.06/ltr for MS and HSD (yearly revision thereon linked with CPI). While coal projects start to commence power generation 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.

Recommendation

We maintain our **“BUY”** call on HASCOL/PSO/APL with our Dec-17 target prices of PKR 430/share/ PKR 519/share/ PKR 817/share, respectively offering +39.5%/+21.5%/+27.4% upside from its last closing.

Exhibit: HSD Market Share - Company wise (CY17TD)

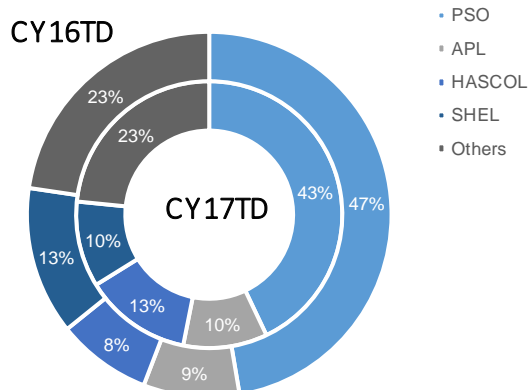


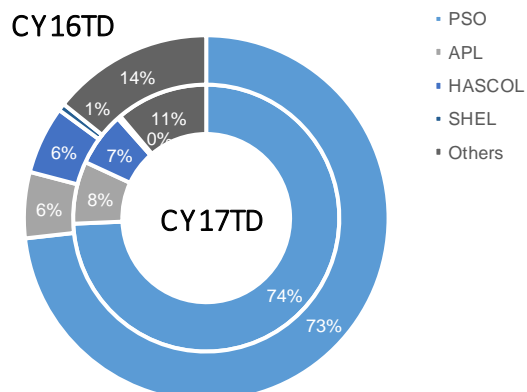
Exhibit:

OMC's Monthly Sales Volume (Aug-17)

	000'tons	Aug-17	MoM	Aug-16	YoY	CY17TD	YoY	2MFY18	YoY
Industry									
MS	678.9	10%	543.2	25%	4,671.4	13%	1,296.1	19%	
HSD	800.4	6%	642.0	25%	5,787.7	8%	1,555.7	30%	
FO	905.2	6%	974.7	-7%	6,213.6	-5%	1,761.2	-8%	
Others	101.5	29%	82.4	23%	702.4	22%	180.5	20%	
Total	2,486.0	8%	2,242.2	11%	17,375.1	5%	4,793.6	10%	
PSO									
MS	300.2	22%	207.1	45%	1,836.3	12%	547.2	28%	
HSD	400.7	28%	256.9	56%	2,484.5	-2%	712.9	41%	
FO	661.4	3%	743.5	-11%	4,618.5	-4%	1,303.3	-9%	
Others	85.2	36%	59.9	42%	540.3	23%	147.7	30%	
Total	1,447.4	15%	1,267.3	14%	9,479.6	1%	2,711.0	9%	
APL									
MS	49.8	-13%	52.2	-5%	390.8	17%	106.9	4%	
HSD	62.9	-23%	75.7	-17%	591.3	30%	144.7	11%	
FO	72.5	22%	53.6	35%	469.8	22%	131.7	23%	
Others	4.6	2%	5.4	-15%	32.9	22%	9.0	1%	
Total	189.7	-6%	186.8	2%	1,484.8	24%	392.3	12%	
HASCOL									
MS	86.8	5%	43.6	99%	576.7	74%	169.5	103%	
HSD	109.6	-8%	57.0	92%	754.9	69%	229.0	123%	
FO	58.4	15%	54.5	7%	406.4	3%	109.4	-8%	
Others	-	-100%	-	0%	2.7	0%	0.8	0%	
Total	254.8	0%	155.2	64%	1,740.8	48%	508.6	66%	
SHEL									
MS	77.5	15%	90.4	-14%	679.1	-8%	145.0	-20%	
HSD	43.9	-14%	78.2	-44%	601.5	-14%	95.0	-37%	
FO	-	N/M	11.6	N/M	24.8	-42%	1.6	-91%	
Others	10.7	46%	15.0	-29%	104.5	12%	18.0	-27%	
Total	132.0	3%	195.2	-32%	1,409.9	-10%	259.7	-30%	

Source: IGI Research

Exhibit: FO Market Share - Company wise (CY17TD)



Source: Company Financials, IGI Research

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Time Horizon: Dec - 2017

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Phone: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Phone: (+92-99) 2408243 - 44