

Day Break

Monday, 09 May 2016

Sector Update

OMCs	TP	Upside	P/E	D. Yld %
PSO	448	23%	11.48	2.50
HASCOL	163	13%	12.58	4.20

PSO Volumes (000' tons)

	Apr-16	YoY	10MFY16	YoY
MS	208	1%	1,976	12%
HSD	397	19%	2,907	1%
FO	449	-27%	4,895	-2%
Total	1,109	-8%	10,313	2%

HASCOL Volumes (000' tons)

	Apr-16	YoY	4MCY16	YoY
MS	43	84%	162	100%
HSD	67	72%	235	83%
FO	31	-35%	160	-34%
Total	141	28%	557	23%

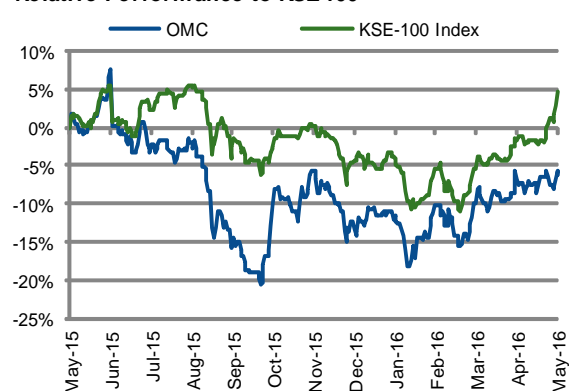
SHEL Volumes (000' tons)

	Apr-16	YoY	4MCY16	YoY
MS	92	5%	370	10%
HSD	95	-23%	355	-6%
FO	7	37%	13	-47%
Total	209	-13%	775	-6%

APL Volumes (000' tons)

	Apr-16	YoY	10MFY16	YoY
MS	33	1%	336	24%
HSD	44	-38%	580	-7%
FO	45	-42%	531	-37%
Total	126	-32%	1,481	-17%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil Marketing Companies

ECC Approves OMC Margin Revision; Volumes Plunge by 8%YoY in Apr-16

- The Economic Coordination Committee (ECC) on Saturday approved OMC margin revision linking it with CPI along with an increase in dealer's margin for MS and HSD. The increase in margin by 6 paise for MS and HSD brings revised margin to PKR 2.41/ltr for both the products.
- Overall industry volumes contracted by of 8%YoY and remained flat on monthly basis at 1.98mnTon in Apr-16. During the month, HSD sales surged by +6%YoY/+17%MoM while MS rose by +11%YoY while squeezing 8%MoM. However, FO sales dropped by 27%YoY/10%MoM in Apr-16.
- Among OMC players, we have a 'BUY' call on HASCOL with a Dec-16 target price of PKR 163/share (+13% upside) and PSO with a Dec-16 target price of PKR 448/share, offering +23% upside from its last close.

ECC Approves OMC Margin Revision for MS & HSD

The Economic Coordination Committee (ECC) on Saturday approved OMC margin linking it with CPI along with an increase in dealers' margin for MS and HSD. The increase in margin by 6 paise for MS and HSD brings revised margin to PKR 2.41/ltr for both the products (previous PKR 2.35/ltr). The new margins will be applicable from 1st Jul-16 onwards. We expect incremental earnings impact of PKR 1.34/share (2.4% of FY17 earnings) for PSO in FY17 and PKR 0.54 (4.1% of CY17 earnings) for HASCOL in CY17, respectively. Furthermore dealers margin has also been revised upward by PKR 0.08 and PKR 0.07 for MS and HSD taking revised margins to PKR 3.16/ltr and PKR 2.67/ltr, respectively.

Exhibit: OMC Margin Revision

	Old (PKR/Ltr)	New (PKR/Ltr)	Impact EPS (PKR) - FY/CY17	% age
PSO	2.35	2.41	1.34	2.40%
HASCOL	2.35	2.41	0.54	4.10%

Source: IGI Research and Company Financials

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Industry Sales Fell by 8%YoY in Apr-16

For the month of Apr-16 industry volumes contracted by 8%YoY, while remained flat on a monthly basis at 1.98mnTon. Product-wise HSD sales surged by +6%YoY/+17%MoM while MS by +11%YoY while squeezing 8%MoM. However, major drop was witnessed in FO sales, down by 27%YoY/10%MoM in Apr-16.

MS Volumes grow by +11%YoY

MS sales posted growth of +11%YoY while plunging by 8%MoM to 0.51mnTon in Apr-16. We expect sales to remain upbeat in May-16 as government reduced GST by ~3.0/ltr keeping the product price unchanged for the month. 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, we expect volumes to remain upbeat during 2HFY16.

HSD volumes depicted a rise of +6%YoY while FO sale contracted by 27%YoY

HSD sales augmented by +6%YoY/+17%MoM to 0.76mnTon in Apr-16 owing to the seasonality effect of Kharif season. We believe demand for HSD to remain strong 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. FO volumes plummeted by 27YoY/10%MoM to 0.64mnTon in Apr-16 owing to reduced demand from the power producers and availability of LNG.

Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, c) margins revision by PKR 0.06 for MS and HSD and, d) minimum inventory losses during 2HFY16. Among OMC players, we have a 'BUY' call on HASCOL with a Dec-16 target price of PKR 163/share (+13% upside) and PSO with a Dec-16 target price of PKR 448/share, offering +23% upside from its last close.

Exhibit: Market Share - Company-wise

	Apr-16	Mar-16	Apr-15	10MFY16	10MFY15
MS					
PSO	41%	40%	45%	42%	47%
APL	7%	6%	7%	7%	7%
HASCOL	8%	7%	5%	7%	5%
SHEL	18%	18%	19%	19%	20%
Others	25%	28%	23%	25%	21%
HSD					
PSO	52%	49%	47%	47%	49%
APL	6%	6%	10%	9%	11%
HASCOL	9%	8%	5%	8%	6%
SHEL	12%	15%	17%	14%	15%
Others	20%	22%	21%	21%	20%
FO					
PSO	70%	72%	70%	71%	66%
APL	7%	6%	9%	8%	11%
HASCOL	5%	6%	5%	5%	6%
SHEL	1%	1%	1%	1%	1%
Others	17%	15%	15%	15%	15%

Source: IGI Research

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

000'tons	Apr-16	Mar-16	MoM	Apr-15	YoY	10MFY16	10MFY15	YoY
Industry								
MS	505.3	550.9	-8%	454.6	11%	4,737.4	3,764.6	26%
HSD	757.4	646.2	17%	715.8	6%	6,144.9	5,914.5	4%
FO	642.1	712.6	-10%	880.5	-27%	6,855.9	7,519.0	-9%
Others	74.0	74.1	0%	95.3	-22%	752.3	812.3	-7%
Total	1,978.8	1,983.8	0%	2,146.3	-8%	18,490.5	18,010.3	3%
PSO								
MS	208.1	223.0	-7%	206.7	1%	1,975.8	1,768.4	12%
HSD	396.9	313.8	26%	334.6	19%	2,907.3	2,881.4	1%
FO	449.2	514.8	-13%	618.7	-27%	4,895.4	4,998.5	-2%
Others	54.9	55.9	-2%	49.2	12%	534.9	454.4	18%
Total	1,109.1	1,107.5	0%	1,209.2	-8%	10,313.5	10,102.8	2%
APL								
MS	33.4	35.3	-5%	33.2	1%	335.9	271.5	24%
HSD	43.6	41.4	5%	70.7	-38%	579.7	626.0	-7%
FO	45.0	43.5	3%	77.3	-42%	530.7	844.4	-37%
Others	4.0	2.2	81%	3.5	15%	34.8	32.7	6%
Total	126.0	122.5	3%	184.6	-32%	1,481.2	1,774.7	-17%
HASCOL								
MS	42.9	41.3	4%	23.3	84%	346.3	173.5	100%
HSD	67.3	54.1	24%	39.2	72%	507.9	346.0	47%
FO	31.0	40.6	-24%	48.0	-35%	372.4	482.0	-23%
Others	-	-	0%	-	0%	-	-	0%
Total	141.2	136.0	4%	110.5	28%	1,226.6	1,001.4	22%
SHEL								
MS	92.4	99.4	-7%	87.6	5%	894.9	742.7	21%
HSD	94.5	94.3	0%	122.4	-23%	874.3	889.6	-2%
FO	7.2	4.9	47%	5.3	37%	47.7	65.8	-27%
Others	14.4	13.3	8%	23.3	-38%	157.5	206.1	-24%
Total	208.6	212.0	-2%	238.6	-13%	1,974.4	1,904.1	4%

Source: IGI Research

Analyst Certification

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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):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price
- Changes in Circular Debt Quantum

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