

Day Break

Monday, 04 February 2019

Sector Update

OMC Sales Data for Jan-19

MS Volumes (000' tons)

	Jan-19	YoY	7MFY19	YoY
PSO	207.6	-7%	1,548.3	-13%
APL	55.5	9%	415.8	18%
HASCOL	70.7	-11%	431.0	-22%
SHEL	79.5	6%	531.2	3%
Industry	604.0	2%	4,264.8	0%

HSD Volumes (000' tons)

	Jan-19	YoY	7MFY19	YoY
PSO	202.3	-31%	1,612.3	-34%
APL	53.1	-7%	457.2	-2%
HASCOL	84.0	-23%	558.5	-27%
SHEL	42.1	-19%	306.9	-11%
Industry	536.5	-24%	4,246.6	-21%

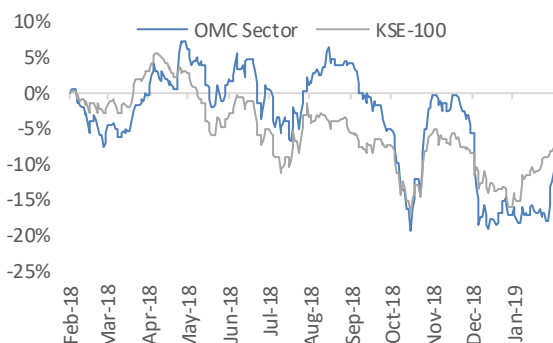
FO Volumes (000' tons)

	Jan-19	YoY	7MFY19	YoY
PSO	172.1	-15%	826.0	-75%
APL	46.5	9%	254.7	-30%
HASCOL	55.4	3%	283.0	-17%
SHEL	-	n/m	0.6	-61%
Industry	360.0	-9%	1,814.6	-61%

Others Volumes (000' tons)

	Jan-19	YoY	7MFY19	YoY
PSO	49.4	-43%	339.3	-34%
APL	3.9	-11%	26.5	-7%
HASCOL	0.4	-45%	5.2	-1%
SHEL	2.0	-75%	24.3	-56%
Industry	57.9	-44%	412.0	-35%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Jan-19: Volumes declined by 13%YoY on account of lower HSD/FO sales

- Industry volumes for oil marketing companies for the month of Jan-19 witnessed a decline of 13%YoY to 1.59mn ton bringing industry volumes for 7MFY19 to 10.74mn ton down by 28%YoY. High Speed Diesel (HSD)/Furnace Oil (FO) sales registered drop of 24%/9%YoY during Jan-19, while Motor Spirit (MS) inched up by +2%YoY,
- MS sales inched up by +2%YoY in Jan-19, while on sequential basis, volumes posted +1%MoM growth to 0.60mn ton on the back of drop in domestic prices and longer shut down on CNG at pumps during the month. HSD sales plummeted by 24%YoY to 0.54mn ton in Jan-19, while on monthly basis volumes are down by 5%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. FO volumes depicted a decline of 13%YoY to 1.59mn ton in Jan-19 as demand remained subdued owing to lower demand from FO based power plants which was also substituted by new low cost LNG/Coal plants operating at priority basis,
- We maintain APL and PSO as our top pick with our Dec-19 target price of PKR 555.3/share and PKR 305.4/share offering +26% and +24% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.6x/6.8x and offer a dividend yield of 9.1%/5.7%.

Volumes depict 13%YoY decline in Jan-19 to 1.59mn ton

Industry volumes for oil marketing companies for the month of Jan-19 witnessed a decline of 13%YoY to 1.59mn ton bringing industry volumes for 7MFY19 to 10.74mn ton down by 28%YoY. High Speed Diesel (HSD)/Furnace Oil (FO) sales registered drop of 24%/9%YoY during Jan-19, while Motor Spirit (MS) inched up by +2%YoY. On a monthly basis, industry volumes augmented by +8%MoM in Jan-19 on the back of +60%/+1%MoM rise in FO/ MS sales whereas HSD reported a 5%MoM drop in sales. For 7MFY19, volumes decreased owing to 61%/21%YoY contraction in FO/HSD sales. To highlight, APL posted +2%YoY growth in sales, while PSO, HASCOL and SHEL witnessed 21%YoY, 13%YoY and 8%YoY decline in sales during Jan-19.

MS; Volumes up by +2%YoY during Jan-19, APL and SHEL led the way

MS sales inched up by +2%YoY in Jan-19, while on sequential basis, volumes posted +1%MoM growth to 0.60mn ton on the back of drop in domestic prices and longer shut down on CNG at pumps during the month. For 7MFY19, MS volumes are flat at 4.26mn ton. During Jan-19, APL and SHEL led the chart by posting +9%YoY and +6%YoY growth respectively, while HASCOL and PSO remained laggards with a decline of 11%YoY and 7%YoY respectively.

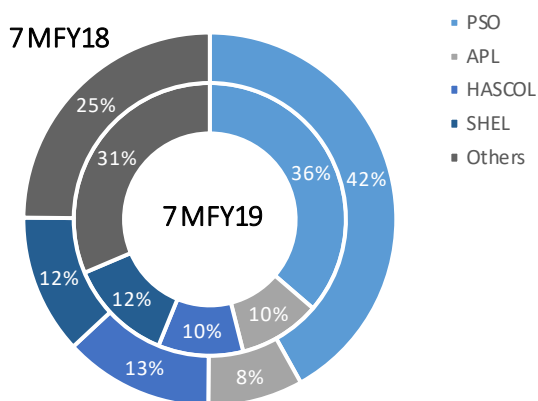
HSD; Grey market taking its toll on sales

HSD sales plummeted by 24%YoY to 0.54mn ton in Jan-19, while on monthly basis volumes are down by 5%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 7MFY19 sales at 4.25mn ton down by 21%YoY. For the month of Jan-19, PSO, HASCOL, SHEL and APL remain laggards with a decline of 31%YoY, 23%YoY, 19%YoY and 7%YoY respectively.

FO; Lower generation on FO dragged volumes down by 9%YoY in Jan-19

FO volumes depicted a decline of 9%YoY to 0.36mn ton in Jan-19 as demand remained subdued owing to lower demand from FO based power plants which was also substituted by new low cost LNG/Coal plants operating at priority basis. On sequential basis, FO volumes leaped up by +60%MoM on account of higher generation in our view to ease inventory buildup of refineries and lower Hydel generation. As a result, total FO volumes are down by 61%YoY in 7MFY19 to 1.81mn ton. For the month of Jan-19, APL and HASCOL witnessed a growth of +9%YoY and +3%YoY in volumes respectively, while PSO recorded a drop of 15%YoY in sales.

Exhibit: MS Market Share - Company wise (7MFY19)



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. However, with higher domestic prices, monetary tightening and drop in automobile sales, we expect OMC volumes to remain subdued in the short term. However, if recent drop in international oil prices sustain at current level, it may translate in to lower domestic prices which might lead to slight boost in volumes. Furthermore, with higher prices locally, smuggled POL products especially HSD has led to significant drop in OMC sales. This in our view, would only be stopped through GoP intervention and until that time OMC's are likely to witness depressed sales volume.

Recommendation

We maintain APL and PSO as our top pick with our Dec-19 target price of PKR 555.3/share and PKR 305.4/share offering +26% and +24% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.6x/6.8x and offer a dividend yield of 9.1%/5.7%. We also have a 'BUY' stance on HASCOL with our Dec-19 target price of PKR 220.9/share offering an upside of +31% from last close.

Exhibit: HSD Market Share - Company wise (7MFY19)

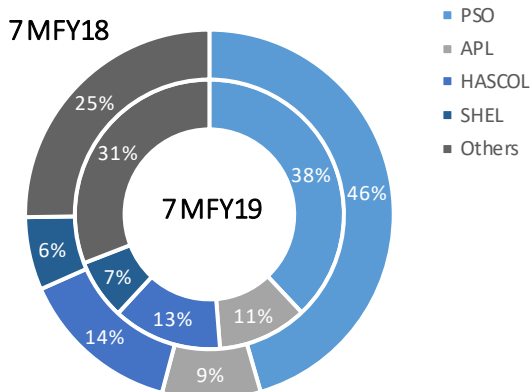


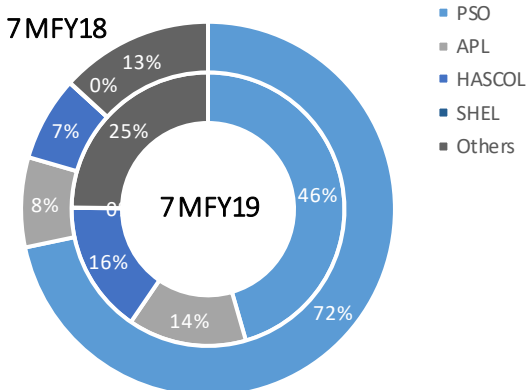
Exhibit:

OMC's Monthly Sales Volume (Jan-19)

	000'tons	Jan-19	Dec-18	MoM	Jan-18	YoY	7MFY19	7MFY18	YoY
Industry									
MS	604.0	600.2	1%	591.4	2%	4,264.8	4,265.1	0%	
HSD	536.5	564.3	-5%	706.9	-24%	4,246.6	5,404.7	-21%	
FO	360.0	225.3	60%	393.6	-9%	1,814.6	4,665.2	-61%	
Others	57.9	51.1	13%	102.7	-44%	412.0	629.5	-35%	
Total	1,558.4	1,441.0	8%	1,794.5	-13%	10,737.9	14,964.5	-28%	
PSO									
MS	207.6	196.6	6%	222.1	-7%	1,548.3	1,786.6	-13%	
HSD	202.3	193.1	5%	292.3	-31%	1,612.3	2,459.7	-34%	
FO	172.1	126.3	36%	201.9	-15%	826.0	3,345.9	-75%	
Others	49.4	43.5	14%	86.0	-43%	339.3	517.8	-34%	
Total	631.4	559.5	13%	802.2	-21%	4,325.9	8,110.0	-47%	
APL									
MS	55.5	67.5	-18%	51.1	9%	415.8	351.7	18%	
HSD	53.1	76.0	-30%	57.2	-7%	457.2	467.0	-2%	
FO	46.5	28.6	63%	42.5	9%	254.7	361.9	-30%	
Others	3.9	2.7	43%	4.4	-11%	26.5	28.4	-7%	
Total	159.0	174.7	-9%	155.2	2%	1,154.2	1,209.0	-5%	
HASCOL									
MS	70.7	46.7	52%	79.1	-11%	431.0	552.4	-22%	
HSD	84.0	41.1	104%	108.6	-23%	558.5	768.5	-27%	
FO	55.4	27.4	102%	53.8	3%	283.0	339.6	-17%	
Others	0.4	0.4	-11%	0.7	-45%	5.2	5.3	-1%	
Total	210.5	115.6	82%	242.3	-13%	1,277.6	1,665.8	-23%	
SHEL									
MS	79.5	76.5	4%	74.8	6%	531.2	514.8	3%	
HSD	42.1	43.0	-2%	52.1	-19%	306.9	345.5	-11%	
FO	-	-	0%	-	n/m	0.6	1.6	-61%	
Others	2.0	2.1	-2%	8.3	-75%	24.3	55.7	-56%	
Total	123.7	121.6	2%	135.1	-8%	863.1	917.6	-6%	

Source: IGI Research

Exhibit: FO Market Share - Company wise (7MFY19)



Source: Company Financials, IGI Research

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Time Horizon: Dec – 2019

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(Discounted Cash Flow)

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