

## Sector Update

OMCs	TP	Upside	P/E	D. Yld %
PSO	489	58%	6.90	3.60
HASCOL	184	46%	12.60	4.10

### PSO Volumes (000' tons)

	Jan-16	YoY	7MFY16	YoY
MS	159.8	-12%	1,371.1	20%
HSD	238.7	-18%	1,949.1	-1%
FO	546.5	49%	3,460.0	3%
Total	1,004.6	13%	7,153.1	5%

### HASCOL Volumes (000' tons)

	Jan-16	YoY	Dec-15	MoM
MS	40.9	66%	39.0	5%
HSD	66.1	95%	44.5	49%
FO	44.9	-22%	30.7	46%
Total	151.9	31%	114.2	33%

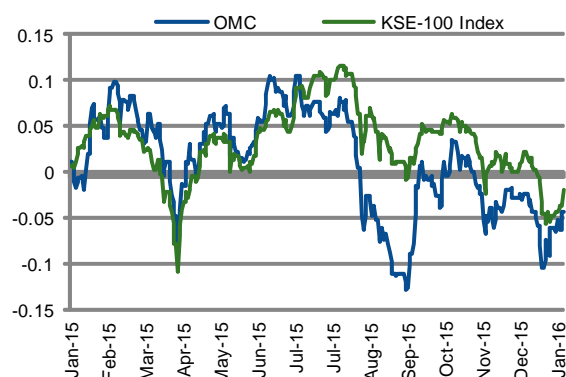
### SHEL Volumes (000' tons)

	Jan-16	YoY	Dec-15	MoM
MS	100.0	26%	77.5	29%
HSD	84.9	-4%	74.3	14%
FO	1.3	-79%	4.7	-72%
Total	195.2	1%	180.6	8%

### APL Volumes (000' tons)

	Jan-16	YoY	7MFY16	YoY
MS	40.7	34%	224.1	25%
HSD	69.2	-9%	443.5	1%
FO	56.9	-29%	389.9	-37%
Total	170.3	-10%	1,083.4	-14%

### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

**Abdullah Farhan**

abdullah.farhan@igi.com.pk

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

## Oil Marketing Companies

### FO Leading The Way in Jan-16

- Overall industry volumes depicted a growth of +8%YoY/+11%MoM to 1.89mnTon in Jan-16. During the month, MS and FO volumes grew by +16%YoY/+1%MoM and +16%YoY/+30%MoM, respectively. However, HSD sales dropped/grew by 4%YoY/+5%MoM in Jan-16.
- We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices and CNG curtailment, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, c) drop of PKR 5/ltr in MS and HSD price, respectively for Feb-16 and, d) minimum inventory losses during FY16.
- Among OMCs players, we have a '**BUY**' call on HASCOL with a Dec-16 TP of PKR 184/share (24% upside), whereas PSO is a strong '**BUY**', with Dec-16 TP of PKR 489/share, offering +47% upside from its last closing of PKR 333/share.

### Volumes Depict Growth as FO Sales Pick-up

Overall industry volumes depicted a growth of +8%YoY/+11%MoM to 1.89mnTon in Jan-16. During the month, MS and FO volumes grew by +16%YoY/+1%MoM and +16%YoY/+30%MoM, respectively. However, HSD sales dropped/grew by 4%YoY/+5%MoM in Jan-16.

### MS Sales growing continuously

MS volumes depicted a strong growth of +16%YoY to 0.46mnTon in Jan-16. We expect sales to remain upbeat in 2HFY16 based on our assumption of lower oil prices and likelihood of government passing on the benefit to end consumers. Volumes for Feb-16 should post healthy growth owing to PKR 5/ltr cut in price for the month. With the change in GST mechanism from percentage of price to fixed amount per liter, sales tax on MS now stands at PKR 14.48/ltr.

### HSD Volumes Depicting a Drop of 4%YoY

HSD sales declined by 4%YoY to 0.59mnTon in Jan-16, whereas volumes witnessed a rise of +5%MoM. We believe demand for HSD to strengthen in 2HFY16 owing to expectation of prices staying on the lower side. HSD prices were also reduced by PKR 5/ltr for the month of Feb-16, whereas GST on HSD has been fixed at PKR 29.57/ltr. Furthermore, improving commercial transportation should keep the volumes upbeat in the coming quarters.

### Lower FO Prices Leading to Higher FO Sales

FO volumes depicted an impressive growth of +16%YoY to 0.76mnTon in Jan-16 due to lower FO prices (down by 11% in Jan-16). On monthly basis, FO sales posted a +30%MoM rise owing to further slowdown in power generation through Hydel due to winters. Besides the current rebound in FO prices due to volatility in oil, we believe it is still cheaper source of fuel for power sector as compared to gas. According to our estimates, FO will remain a cheap source of fuel as long as it stays below PKR 27,500/mt.

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

000'tons	Jan-16	Dec-15	MoM	Jan-15	YoY	7MFY16	7MFY15	YoY
<b>Industry</b>								
MS	462.0	459.5	1%	398.9	16%	3,229.1	2,461.2	31%
HSD	592.5	563.3	5%	614.7	-4%	4,183.4	4,063.6	3%
FO	761.5	587.3	30%	657.1	16%	4,830.7	5,097.9	-5%
Others	74.09	90.59	-18%	79.52	-7%	549.4	569.1	-3%
Total	1,890.2	1,700.7	11%	1,750.2	8%	12,792.6	12,191.8	5%
<b>PSO</b>								
MS	159.8	186.6	-14%	181.8	-12%	1,371.1	1,144.8	20%
HSD	238.7	258.9	-8%	289.9	-18%	1,949.1	1,972.7	-1%
FO	546.5	401.2	36%	367.6	49%	3,460.0	3,361.7	3%
Others	59.6	56.5	5%	47.18	26%	373.0	319.0	17%
Total	1,004.6	903.1	11%	886.5	13%	7,153.1	6,798.2	5%
<b>APL</b>								
MS	40.7	32.3	26%	30.5	34%	224.1	178.9	25%
HSD	69.2	67.4	3%	76.0	-9%	443.5	439.4	1%
FO	56.9	53.1	7%	79.6	-29%	389.9	616.9	-37%
Others	3.4	3.1	9%	3.69	-8%	26.0	22.2	18%
Total	170.3	155.9	9%	189.8	-10%	1,083.4	1,257.2	-14%
<b>HASCOL</b>								
MS	40.9	39.0	5%	24.7	66%	225.5	117.2	92%
HSD	66.1	44.5	49%	33.9	95%	338.8	251.0	35%
FO	44.9	30.7	46%	57.7	-22%	257.1	298.4	-14%
Total	151.9	114.2	33%	116.3	31%	821.4	666.6	23%
<b>SHEL</b>								
MS	100.0	77.5	29%	79.5	26%	624.9	487.1	28%
HSD	84.9	74.3	14%	88.5	-4%	603.8	601.1	0%
FO	1.3	4.7	-72%	6.3	-79%	35.6	46.9	-24%
Others	9.0	24.2	-63%	18.9	-53%	129.8	139.2	-7%
Total	195.2	180.6	8%	193.2	1%	1,394.1	1,274.2	9%

Source: IGI Research

### HASCOL Continues to Gain Market Share in MS and HSD

For the 7MFY16, PSO and SHEL lost their share in MS from 47% and 20% in 7MFY15 to 42% and 19%, respectively to HASCOL and other OMCs increasing their market share to 7% and 24% in 7MFY16 from 5% and 22% in same period last year, respectively. As for HSD, PSO and SHEL lost market share from 49% and 15% in 7MFY15 to 47% and 14%, respectively, to HASCOL pushing up its market share from 6% to 8% in 7MFY16. PSO led the market in FO volumes as its share increased from 66% in 7MFY15 to 72%.

## Outlook

We maintain over-weight stance on OMCs on the back of a) increased demand for MS owing to lower prices and CNG curtailment, b) government 3-yr plan to reduce the quantum of circular debt to improve sector liquidity, c) drop of PKR 5/ltr in MS and HSD price, respectively for Feb-16 and, d) minimum inventory losses during FY16. Among OMCs players, we have a **'BUY'** call on HASCOL with a Dec-16 TP of PKR 184/share (24% upside), whereas PSO is a strong **'BUY'**, with Dec-16 TP of PKR 489/share, offering +47% upside from its last closing of PKR 333/share.

### Exhibit: Market Share - Company-wise

000'tons	Jan-16	Dec-15	Jan-15	7MFY16	7MFY15
<b>MS</b>					
PSO	35%	41%	46%	42%	47%
APL	9%	7%	8%	7%	7%
HASCOL	9%	8%	6%	7%	5%
SHEL	22%	17%	20%	19%	20%
Others	26%	27%	21%	24%	22%
<b>HSD</b>					
PSO	40%	46%	47%	47%	49%
APL	12%	12%	12%	11%	11%
HASCOL	11%	8%	6%	8%	6%
SHEL	14%	13%	14%	14%	15%
Others	23%	21%	21%	20%	20%
<b>FO</b>					
PSO	72%	68%	56%	72%	66%
APL	7%	9%	12%	8%	12%
HASCOL	6%	5%	9%	5%	6%
SHEL	0%	1%	1%	1%	1%
Others	15%	17%	22%	14%	15%

Source: IGI Research

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

### Disclaimer

This document has been prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

### Rating system

IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
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<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Discounted Cash Flow (DCF)

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queshi@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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, KSE 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- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### 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