

Day Break

Friday, 05 August 2016

Sector Update

OMC Sales Data for Jul-16

PSO Volumes (000' tons)

	Jul-16	YoY	7MCY16	YoY
MS	221	-2%	1,431	-2%
HSD	248	-2%	2,272	0%
FO	694	30%	4,066	12%
Total	1,217	12%	8,150	6%

HASCOL Volumes (000' tons)

	Jul-16	YoY	7MCY16	YoY
MS	40	57%	288	101%
HSD	46	53%	391	75%
FO	65	49%	339	2%
Total	150	52%	1,018	46%

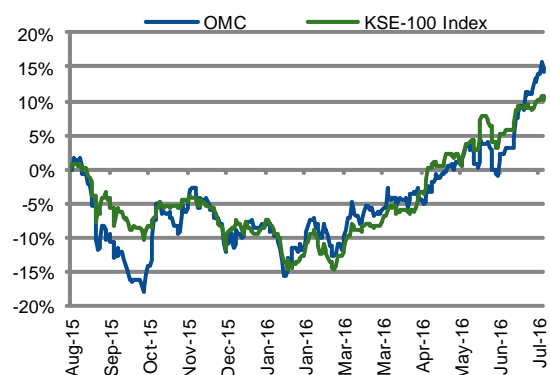
SHEL Volumes (000' tons)

	Jul-16	YoY	7MCY16	YoY
MS	90	-4%	645	4%
HSD	72	-15%	622	-5%
FO	6	67%	31	-15%
Total	178	-10%	1,376	-6%

APL Volumes (000' tons)

	Jul-16	YoY	7MCY16	YoY
MS	51	112%	283	45%
HSD	54	-10%	380	-15%
FO	54	-20%	330	-38%
Total	162	5%	1,014	-15%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil Marketing Companies

Jul-16: Sales Mount by +11%YoY

- Oil Marketing industry volumes depicted an impressive growth of +22YoY (-23%MoM) to 2.09mnTon in Jul-16. During the month, MS/HSD/FO sales leaped up by +28%YoY/+6%YoY/+32%YoY. Industry volumes for 7MCY16 augmented by +7%YoY to 14.4mnTon owing to +17%YoY/+6%YoY/+4%YoY jump in MS/HSD/FO sales.
- 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) revision in margins by PKR 0.06/ltr for MS and HSD and, d) lower inventory losses as prices remain unchanged.
- We are currently revising our investment case for PSO and HASCOL to incorporate higher volumetric growth.

Volumes witnessed Enormous Growth of +22%YoY in Jul-16

Oil Marketing industry volumes depicted an impressive growth of +22YoY (-23%MoM) to 2.09mnTon in Jul-16. During the month, MS/HSD/FO sales leaped up by +28%YoY/+6%YoY/+32%YoY. Industry volumes for 7MCY16 augmented by +7%YoY to 14.4mnTon owing to +17%YoY/+6%YoY/+4%YoY jump in MS/HSD/FO sales.

MS; Lower Prices Driving Robust Growth

MS sales towered up by +28%YoY/+6%MoM to 0.54mnTon in Jul-16, on the back of higher demand amid lower prices. We expect sales to remain upbeat in Jul-16 owing to unchanged prices.

HSD; Slowdown in Volumetric Growth

HSD sales augmented by +6%YoY to 0.55mnTon in Jul-16, however on monthly basis volumes plunged by 21%. However, in our view, demand for HSD is anticipated to remain strong owing to lower prices expectations and improving outlook on commercial transportation.

FO; Higher FO based Generation Pushes Sales up by +32%YoY

FO volumes depicted a notable hike of +32%YoY to 0.93mnTon in Jul-16, by the reason of higher LSFO demand from KAPCO and PAKGEN power plants. Whereas, volumes depicted a decline of 4%MoM in Jul-16 as Hydel based power generation picked up due to better availability of water during monsoon season.

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

000'tons	Jul-16	Jun-16	MoM	Jul-15	YoY	CY16TD	CY15TD	YoY
Industry								
MS	543.7	513.5	6%	425.2	28%	3,587.9	3,068.8	17%
HSD	551.6	700.3	-21%	519.6	6%	4,700.9	4,450.0	6%
FO	934.1	974.3	-4%	706.0	32%	5,592.9	5,361.9	4%
Others	68.4	70.6	-3%	63.7	7%	495.2	550.0	-10%
Total	2,097.8	2,258.7	-7%	1,714.5	22%	14,377.0	13,430.7	7%
PSO								
MS	220.5	211.0	4%	196.9	12%	1,431.1	1,454.7	-2%
HSD	248.1	323.7	-23%	244.9	1%	2,271.7	2,263.8	0%
FO	693.9	722.4	-4%	524.7	32%	4,065.7	3,636.7	12%
Others	54.0	49.3	10%	41.3	31%	381.1	303.7	25%
Total	1,216.6	1,306.5	-7%	1,007.8	21%	8,149.5	7,659.0	6%
APL								
MS	51.0	38.2	33%	24.1	112%	282.5	194.8	45%
HSD	54.1	75.3	-28%	60.2	-10%	379.8	444.9	-15%
FO	53.7	48.7	10%	67.2	-20%	330.2	533.1	-38%
Others	3.6	2.7	33%	3.9	-6%	21.7	26.1	-17%
Total	162.3	164.9	-2%	155.3	5%	1,014.3	1,198.8	-15%
HASCOL								
MS	39.9	39.5	1%	25.4	57%	288.1	143.7	101%
HSD	45.8	45.6	0%	29.9	53%	390.9	222.9	75%
FO	64.8	60.9	6%	43.5	49%	339.3	333.2	2%
Others	-	-	0%	-	0%	-	-	0%
Total	150.5	146.1	3%	98.8	52%	1,018.3	699.7	46%
SHEL								
MS	89.8	89.4	0%	93.5	-4%	644.8	620.0	4%
HSD	72.2	91.2	-21%	84.8	-15%	621.9	652.4	-5%
FO	5.9	4.8	23%	3.5	67%	30.8	36.2	-15%
Others	9.8	14.8	-34%	15.8	-38%	78.3	152.4	-49%
Total	177.6	200.2	-11%	197.6	-10%	1,375.8	1,461.0	-6%

Source: IGI Research

PSO regains its Market Share on account of APL and HASCOL

APL regained its market share of MS reaching 9% during Jul-16 as compared to 7% in Jun-16, bringing 7MCY16 market share to 8%, whereas HASCOL lost its market share by 210bps to 7%. However, HASCOL's market share increased to 8% in 7MCY16. PSO and SHEL market shares remained unchanged during 7MCY16. As for HSD, PSO and APL lost their market share by 100bps to 45% and 10%, respectively, while HASCOL's market share increased to 8% in Jul-16. For 7MCY16, PSO/APL/SHEL lost their market share to 48%/8%/13%, respectively while HASCOL gained its market share to 8%. For FO, APL, HASCOL and SHEL regained market share to 6%, 7% and 1%, respectively in Jul-16 whereas PSO's share remained unchanged at 74%. In 7MCY16, PSO gained significant market share by 500bps to 73%, while APL's share decreased to 6% from 10% in the same period last year.

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) revision in margins by PKR 0.06/ltr for MS and HSD and, d) lower inventory losses as prices remain unchanged. We are currently revising our investment case for PSO and HASCOL to incorporate higher volumetric growth.

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Exhibit: Market Share - Company-wise

	Jul-16	Jun-16	Jul-15	CY16TD	CY15TD
MS					
PSO	41%	41%	46%	40%	47%
APL	9%	7%	6%	8%	6%
HASCOL	7%	8%	6%	8%	5%
SHEL	17%	17%	22%	18%	20%
Others	26%	26%	20%	26%	21%
HSD					
PSO	45%	46%	47%	48%	51%
APL	10%	11%	12%	8%	10%
HASCOL	8%	7%	6%	8%	5%
SHEL	13%	13%	16%	13%	15%
Others	24%	23%	19%	22%	19%
FO					
PSO	74%	74%	74%	73%	68%
APL	6%	5%	10%	6%	10%
HASCOL	7%	6%	6%	6%	6%
SHEL	1%	0%	0%	1%	1%
Others	12%	14%	10%	15%	15%

Source: IGI Research

Analyst Certification

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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[^] 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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