

Day Break

Monday, 13 June 2016

Sector Update

OMCs	TP	Upside	P/E	D. Yld %
PSO	448	20%	12.35	2.60
HASCOL	UR	-	-	-

PSO Volumes (000' tons)

	May-16	YoY	11MFY16	YoY
MS	235	-2%	2,211	10%
HSD	503	-2%	3,410	0%
FO	667	30%	5,563	1%
Total	1,462	12%	11,775	3%

HASCOL Volumes (000' tons)

	May-16	YoY	5MCY16	YoY
MS	47	142%	209	108%
HSD	64	148%	300	94%
FO	53	104%	214	-20%
Total	165	130%	722	38%

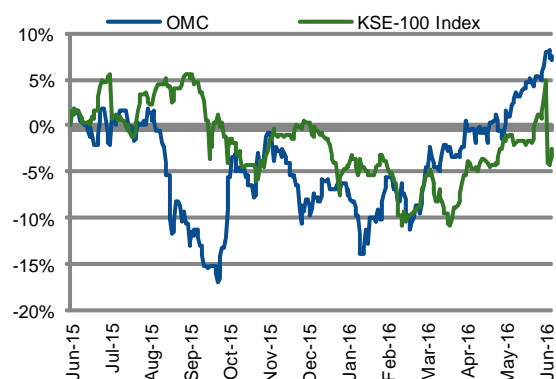
SHEL Volumes (000' tons)

	May-16	YoY	5MCY16	YoY
MS	96	1%	466	8%
HSD	103	-6%	459	-6%
FO	7	58%	20	-32%
Total	223	-4%	998	-5%

APL Volumes (000' tons)

	May-16	YoY	11MFY16	YoY
MS	41	66%	377	27%
HSD	45	-4%	625	-7%
FO	30	-62%	561	-39%
Total	119	-23%	1,600	-17%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil Marketing Companies

May-16: Volumes Depict +11%YoY Growth

- Overall industry volumes depicted a growth of +11YoY/+23%MoM to 2.43mnTon in May-16. During the month, MS and HSD sales surged by +14%YoY/+11%MoM and +5%YoY/+18%MoM, respectively. FO sales leaped up massively by +17%YoY/+40%MoM in May-16.
- 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/ltr for MS and HSD and, d) possible inventory gain during 4QFY16.
- Among OMC players, we have a 'BUY' call on PSO with a Dec-16 target price of PKR 448/share, offering +20% upside from its last close and HASCOL is under review.

Industry Sales Mount by +11%YoY in May-16

Overall industry volumes depicted a growth of +11YoY/+23%MoM to 2.43mnTon in May-16. During the month, MS and HSD sales surged by +14%YoY/+11%MoM and +5%YoY/+18%MoM, respectively. FO sales leaped up massively by +17%YoY/+40%MoM in May-16. Industry volumes for 11MFY16 augmented by 4%YoY to 20.9mnTon owing to 24%YoY and 4%YoY jump in MS and HSD sales. FO Volumes dropped by 6%YoY to 7.8mnTon in 11MFY16.

MS; Keeping an Upward Trajectory

MS sales posted a strong growth of +14%YoY/+5%MoM to 0.56mnTon in May-16, on the back of higher demand amid lower prices. We expect sales to post healthy growth in Jun-16 owing to unchanged price as OGRA further slashed the GST on MS, despite increase in ex-refinery price.

HSD; Unchanged Price Leads to Upbeat Volumes in May-16

HSD sales augmented by +5%YoY/18%MoM to 0.89mnTon in May-16 owing to reduction in General Sales Tax (GST) by PKR 4.41/ltr. We believe demand for HSD to remain strong owing to expectation of prices staying on the lower side and improving outlook on commercial transportation.

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FO; Seasonal Demand Drives up Volumes

FO volumes depicted an impressive growth of +17%YoY/+40%MoM to 0.89mnTon in May-16 due to higher LSFO demand from KAPCO, PAKGEN plant back to normal operations after replacement of turbine and Hub Plant resuming to normal generation post conclusion of repair work on all four boilers.

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

000'tons	May-16	Apr-16	MoM	May-15	YoY	11MFY16	11MFY15	YoY
Industry								
MS	560	505	11%	492	14%	5,298	4,257	24%
HSD	895	757	18%	852	5%	7,040	6,767	4%
FO	898	642	40%	766	17%	7,754	8,285	-6%
Others	79	74	7%	77	3%	832	889	-6%
Total	2,432	1,979	23%	2,188	11%	20,923	20,198	4%
PSO								
MS	235	208	13%	240	-2%	2,211	2,009	10%
HSD	503	397	27%	514	-2%	3,410	3,395	0%
FO	667	449	49%	513	30%	5,563	5,511	1%
Others	56	55	2%	40	39%	591	495	19%
Total	1,462	1,109	32%	1,307	12%	11,775	11,410	3%
APL								
MS	41	33	22%	25	66%	377	296	27%
HSD	45	44	3%	47	-4%	625	673	-7%
FO	30	45	-33%	80	-62%	561	924	-39%
Others	3	4	-21%	4	-13%	38	36	5%
Total	119	126	-5%	155	-23%	1,600	1,930	-17%
HASCOL								
MS	47	43	9%	19	142%	393	193	104%
HSD	64	67	-4%	26	148%	572	372	54%
FO	53	31	72%	26	104%	426	508	-16%
Others	-	-	0%	-	0%	-	-	0%
Total	165	141	17%	71	130%	1,391	1,073	30%
SHEL								
MS	96	92	3%	94	1%	991	837	18%
HSD	103	95	9%	110	-6%	977	999	-2%
FO	7	7	-8%	4	58%	54	70	-22%
Others	17	14	19%	24	-28%	175	230	-24%
Total	223	209	7%	232	-4%	2,197	2,136	3%

Source: IGI Research

PSO regains its Market Share on account of APL and HASCOL

PSO regained its market share of MS to 42% during May-16 as compared to 41% in Apr-16, bringing 11MFY16 market share to 42%, whereas SHEL lost its market share by 100bps to 17%. HASCOL's market share increased to 7% in 11MFY16. As for HSD, PSO gained 400bps to 56% in May-16, bringing 11MFY16 market share to 48%, while APL and SHEL lost market share by 100bps each to 9% and 14%, respectively. HASCOL market share rose to 8% in 11MFY16 from 5% in the corresponding period last year. PSO gained significant market share of FO in May-16 to 74% from 70% in the same period last year while APL and HASCOL lost 400bps and 100bps to 3% and 6%, respectively. Market share for FO in 11MFY16 stands at 72%, 3% and 6% for PSO, APL and HASCOL respectively.

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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/ltr for MS and HSD and, d) possible inventory gain during 4QFY16. Among OMC players, we have a 'BUY' call on PSO with a Dec-16 target price of PKR 448/share, offering +20% upside from its last close and HASCOL is under review,.

Exhibit: Market Share - Company-wise

	May-16	Apr-16	May-15	11MFY16	11MFY15
MS					
PSO	42%	41%	49%	42%	47%
APL	7%	7%	5%	7%	7%
HASCOL	8%	8%	4%	7%	5%
SHEL	17%	18%	19%	19%	20%
Others	25%	25%	23%	25%	22%
HSD					
PSO	56%	52%	60%	48%	50%
APL	5%	6%	6%	9%	10%
HASCOL	7%	9%	3%	8%	5%
SHEL	12%	12%	13%	14%	15%
Others	20%	20%	18%	21%	20%
FO					
PSO	74%	70%	67%	72%	67%
APL	3%	7%	10%	7%	11%
HASCOL	6%	5%	3%	5%	6%
SHEL	1%	1%	1%	1%	1%
Others	16%	17%	19%	15%	15%

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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