

# Day Break

Wednesday, 05 December 2018

## Sector Update

### OMC Sales Data for Nov-18

#### MS Volumes (000' tons)

	Nov-18	YoY	5MFY19	YoY
PSO	182.3	-19%	1,144.1	-14%
APL	49.8	11%	292.8	15%
HASCOL	51.3	-25%	313.6	-22%
SHEL	65.3	-13%	375.2	2%
Industry	542.8	-4%	3,060.6	0%

#### HSD Volumes (000' tons)

	Nov-18	YoY	5MFY19	YoY
PSO	228.7	-42%	1,216.9	-31%
APL	65.5	-5%	328.1	-6%
HASCOL	70.2	-36%	433.4	-22%
SHEL	41.0	-28%	221.8	-10%
Industry	595.7	-30%	3,145.8	-20%

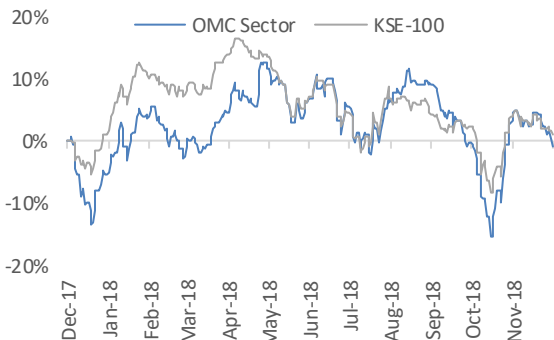
#### FO Volumes (000' tons)

	Nov-18	YoY	5MFY19	YoY
PSO	88.4	-69%	527.7	-82%
APL	10.3	-64%	179.7	-34%
HASCOL	10.3	-67%	200.2	-19%
SHEL	-	n/m	0.6	-61%
Industry	133.0	-67%	1,229.2	-68%

#### Others Volumes (000' tons)

	Nov-18	YoY	5MFY19	YoY
PSO	52.1	-31%	246.4	-33%
APL	4.9	37%	19.9	-3%
HASCOL	0.4	-38%	4.3	17%
SHEL	2.5	-64%	20.2	-50%
Industry	61.9	-31%	303.0	-32%

### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

### Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

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

## Oil & Gas – Marketing Companies

### Nov-18: Volumes declined by 30%YoY on account of lower HSD/FO sales

- Industry volumes for oil marketing companies for the month of Nov-18 witnessed a decline of 30%YoY to 1.33mn ton bringing industry volumes for 5MFY19 to 7.74mn ton down by 32%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD)/ Motor Spirit (MS) sales registered drop of 67%/30%/4%YoY during Nov-18.
- MS sales inched down by 4%YoY in Nov-18, while on sequential basis, volumes posted 13%MoM drop to 0.54mn ton on the back of increase in domestic price leading to shift towards CNG. HSD sales plummeted by 30%YoY to 0.60mn ton in Nov-18, while on monthly basis volumes are down by 18%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. FO volumes depicted a significant decline of 67%YoY to 0.13mn ton in Nov-18 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 563.8/share and PKR 293.5/share offering +29% and +25% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.6x/6.4x and offer a dividend yield of 10.1%/6.0%.

#### Volumes depict 30%YoY decline in Nov-18 to 1.33mn ton

Industry volumes for oil marketing companies for the month of Nov-18 witnessed a decline of 30%YoY to 1.33mn ton bringing industry volumes for 5MFY19 to 7.74mn ton down by 32%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD)/ Motor Spirit (MS) sales registered drop of 67%/30%/4%YoY during Nov-18. On a monthly basis, industry volumes declined by 19%MoM in Nov-18 on the back of 46%/18%/13%MoM drop in FO/HSD/MS sales. For 5MFY19, volumes decreased owing to 68%/20%YoY contraction in FO/HSD sales. To highlight, APL, SHEL, HASCOL and PSO posted 11%YoY, 22%YoY, 37%YoY and 44%YoY decline in sales during Nov-18.

#### MS; Volumes down by 4%YoY during Nov-18, APL stands tall

MS sales inched down by 4%YoY in Nov-18, while on sequential basis, volumes posted 13%MoM drop to 0.54mn ton on the back of increase in domestic price leading to shift towards CNG. For 5MFY19, MS volumes are flat at 3.06mn ton. During Nov-18, APL led the chart by posting +11%YoY growth, while HASCOL, PSO and SHEL remain laggards with a decline of 25%YoY, 19%YoY and 13%YoY respectively.

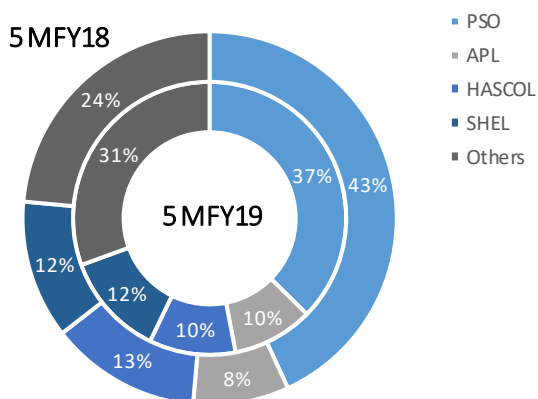
#### HSD; Grey market taking its toll on sales

HSD sales plummeted by 30%YoY to 0.60mn ton in Nov-18, while on monthly basis volumes are down by 18%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 5MFY19 sales at 3.15mn ton down by 20%YoY. For the month of Nov-18, APL, SHEL, HASCOL and PSO remain laggards with a decline of 5%YoY, 28%YoY, 36%YoY and 42%YoY respectively.

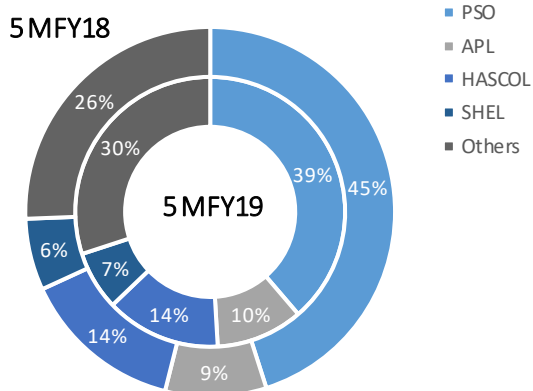
#### FO; Lower generation from inefficient plants further dragged FO volumes down in Nov-18

FO volumes depicted a significant decline of 67%YoY to 0.13mn ton in Nov-18 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 plummeted by 46%MoM on account of lower demand. As a result, total FO volumes are down by 68%YoY in 5MFY19 to 1.23mn ton. For the month of Nov-18, PSO, HASCOL and APL witnessed a drop of 69%YoY, 67%YoY and 64%YoY in volumes, while SHEL recorded no sale of FO during the month.

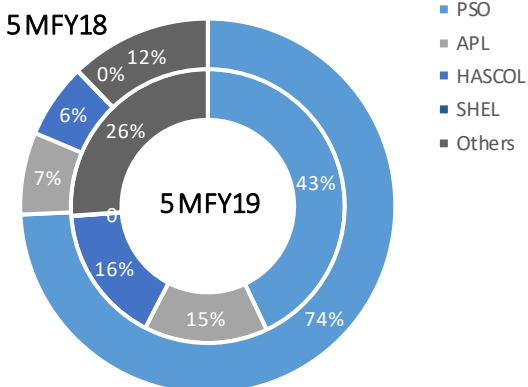
**Exhibit: MS Market Share - Company wise (5MFY19)**



**Exhibit: HSD Market Share - Company wise (5MFY19)**



**Exhibit: FO Market Share - Company wise (5MFY19)**



**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 would witness depressed sales volume.

**Recommendation**

We maintain APL and PSO as our top pick with our Dec-19 target price of PKR 563.8/share and PKR 293.5/share offering +29% and +25% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.6x/6.4x and offer a dividend yield of 10.1%/6.0%. We also have a 'BUY' stance on HASCOL with our Dec-19 target price of PKR 223.9/share offering an upside of +24% from last close.

Exhibit:

**OMC's Monthly Sales Volume (Nov-18)**

000'tons	Nov-18	Oct-18	MoM	Nov-17	YoY	5MFY19	YoY	CY18TD	YoY
<b>Industry</b>									
MS	542.8	621.5	-13%	565.8	-4%	3,060.6	0%	6,679.8	4%
HSD	595.7	724.0	-18%	851.5	-30%	3,145.8	-20%	7,421.6	-9%
FO	133.0	247.5	-46%	401.8	-67%	1,229.2	-68%	4,110.9	-50%
Others	61.9	61.2	1%	89.7	-31%	303.0	-32%	780.7	-19%
Total	1,333.4	1,654.2	-19%	1,908.8	-30%	7,738.6	-32%	18,993.0	-20%
<b>PSO</b>									
MS	182.3	230.5	-21%	224.8	-19%	1,144.1	-14%	2,476.8	-5%
HSD	228.7	307.8	-26%	395.0	-42%	1,216.9	-31%	2,903.5	-18%
FO	88.4	130.8	-32%	287.8	-69%	527.7	-82%	2,231.4	-64%
Others	52.1	50.5	3%	75.6	-31%	246.4	-33%	620.9	-18%
Total	551.5	719.7	-23%	983.2	-44%	3,135.0	-50%	8,232.5	-37%
<b>APL</b>									
MS	49.8	57.6	-14%	44.8	11%	292.8	15%	630.0	17%
HSD	65.5	66.4	-1%	69.2	-5%	328.1	-6%	741.5	-7%
FO	10.3	33.7	-70%	28.3	-64%	179.7	-34%	498.6	-18%
Others	4.9	3.8	27%	3.6	37%	19.9	-3%	45.1	2%
Total	130.4	161.5	-19%	145.9	-11%	820.5	-8%	1,915.3	-4%
<b>HASCOL</b>									
MS	51.3	64.4	-20%	68.8	-25%	313.6	-22%	771.3	-5%
HSD	70.2	89.2	-21%	109.4	-36%	433.4	-22%	1,088.4	0%
FO	10.3	29.4	-65%	31.1	-67%	200.2	-19%	551.4	1%
Others	0.4	0.4	1%	0.7	-38%	4.3	17%	8.8	56%
Total	132.3	183.5	-28%	209.9	-37%	951.5	-21%	2,419.9	-1%
<b>SHEL</b>									
MS	65.3	79.7	-18%	74.9	-13%	375.2	2%	846.0	-6%
HSD	41.0	49.2	-17%	57.1	-28%	221.8	-10%	541.3	-28%
FO	-	0.5	-100%	-	n/m	0.6	-61%	0.6	-97%
Others	2.5	3.8	-33%	6.9	-64%	20.2	-50%	70.7	-44%
Total	108.8	133.2	-18%	139.0	-22%	617.8	-6%	1,458.6	-19%

Source: IGI Research

Source: Company Financials, IGI Research

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views 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(s) 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:** The information and opinions contained herein are 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. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**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 target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec – 2019

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	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	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan 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 # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

### Lahore Office

Shop # G-009, Ground Floor,  
Packages Mall  
Tel: (+92-42) 38303560-69  
Fax: (+92-42) 38303559

### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road  
Tel: (92-61) 4512003, 4571183

### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Saddar Cantt.  
Tel: (92-91) 5273035, 5223882

### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area  
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  
Tel: (+92-68) 5871652-3  
Fax: (+92-68) 5871651

### Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,  
Opp. Radio Station, Mansehra Road  
Tel: (+92-99) 2408243 - 44

### Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,  
Mubarik Pura  
Tel: (+92-52) 3258028

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited