

Day Break

Tuesday, 05 March 2019

Sector Update

OMC Sales Data for Feb-19

MS Volumes (000' tons)

	Feb-19	YoY	8MFY19	YoY
PSO	212.2	14%	1,760.5	-11%
APL	55.2	16%	471.0	18%
HASCOL	74.9	9%	505.9	-19%
SHEL	78.6	9%	609.8	4%
Industry	613.6	16%	4,878.4	2%

HSD Volumes (000' tons)

	Feb-19	YoY	8MFY19	YoY
PSO	217.1	-7%	1,829.4	-32%
APL	52.0	-8%	509.2	-3%
HASCOL	91.2	-3%	649.7	-25%
SHEL	47.3	0%	354.2	-10%
Industry	583.9	-1%	4,830.5	-19%

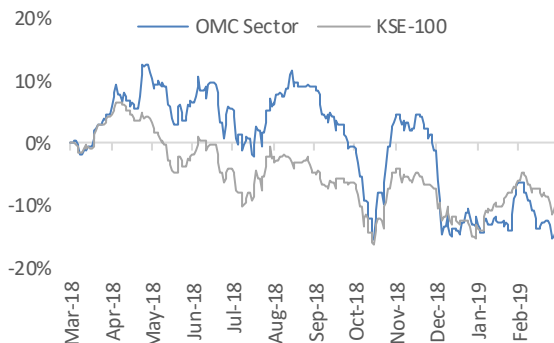
FO Volumes (000' tons)

	Feb-19	YoY	8MFY19	YoY
PSO	61.7	-38%	887.8	-74%
APL	31.3	4%	286.0	-27%
HASCOL	30.1	-37%	313.1	-19%
SHEL	-	n/m	0.6	-61%
Industry	171.4	-31%	1,986.0	-60%

Others Volumes (000' tons)

	Feb-19	YoY	8MFY19	YoY
PSO	50.2	-33%	389.5	-34%
APL	4.2	12%	30.7	-5%
HASCOL	0.4	-25%	5.6	-4%
SHEL	1.9	-74%	26.2	-59%
Industry	59.1	-34%	471.1	-35%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Feb-19: Volumes declined by 2%YoY on account of lower HSD/FO sales while MS sales support

- Industry volumes for oil marketing companies for the month of Feb-19 witnessed a decline of 2%YoY to 1.43mn ton bringing industry volumes for 8MFY19 to 12.17mn ton down by 26%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 31%/1%YoY during Feb-19, while Motor Spirit (MS) increased by +16%YoY,
- MS sales augmented by +16%YoY in Feb-19, while on sequential basis, volumes posted +2%MoM growth to 0.61mn ton on the back of drop in domestic prices and longer shut down on CNG at pumps during the month. HSD sales inched down by 1%YoY to 0.58mn ton in Feb-19, while on monthly basis volumes recovered by +9%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 31%YoY to 0.17mn ton in Feb-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 302.6/share offering +32% and +29% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.3x/7.1x and offer a dividend yield of 9.5%/5.5%.

Volumes depict 2%YoY decline in Feb-19 to 1.43mn ton

Industry volumes for oil marketing companies for the month of Feb-19 witnessed a decline of 2%YoY to 1.43mn ton bringing industry volumes for 8MFY19 to 12.17mn ton down by 26%YoY. Furnace Oil (FO)/ High Speed Diesel (HSD) sales registered drop of 31%/1%YoY during Feb-19, while Motor Spirit (MS) increased by +16%YoY. On a monthly basis, industry volumes dropped by 8%MoM in Feb-19 on the back of 52%MoM decline in FO sales whereas HSD/MS reported a +9%/+2%MoM rise in sales. For 8MFY19, volumes decreased owing to 60%/19%YoY contraction in FO/HSD sales. To highlight, APL/SHEL posted +3%/+1%YoY growth in sales, while PSO and HASCOL witnessed 9%YoY and 7%YoY decline in sales during Feb-19.

MS; Volumes up by +16%YoY during Feb-19, APL and PSO led the way

MS sales augmented by +16%YoY in Feb-19, while on sequential basis, volumes inched up by +2%MoM growth to 0.61mn ton on the back of drop in domestic prices and longer shut down on CNG at pumps during the month. For 8MFY19, MS volumes are up by +2%YoY to 4.88mn ton. During Feb-19, APL and PSO led the chart by posting +16%YoY and +14%YoY growth respectively, while HASCOL and SHEL registered +9%YoY growth in sales each respectively.

HSD; Sales recover but grey market threat looms

HSD sales inched down by 1%YoY to 0.58mn ton in Feb-19, while on monthly basis volumes recovered by +9%MoM. The drop in sales is likely attributable to higher domestic prices, slowdown in commercial transport and grey market sales. This brings total 8MFY19 sales at 4.83mn ton down by 19%YoY. For the month of Feb-19, SHEL led the way with flat sales while APL, PSO and HASCOL remain laggards with a decline of 8%YoY, 7%YoY and 3%YoY respectively.

FO; Lower generation on FO dragged volumes down by 31%YoY in Feb-19

FO volumes depicted a decline of 31%YoY to 0.17mn ton in Feb-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 are down by 52%MoM. As a result, total FO volumes are down by 60%YoY in 8MFY19 to 1.99mn ton. For the month of Feb-19, APL witnessed a growth of +4%YoY in volumes, while PSO and HASCOL recorded a drop of 38%YoY and 37%YoY in sales respectively.

Exhibit: MS Market Share - Company wise (8MFY19)

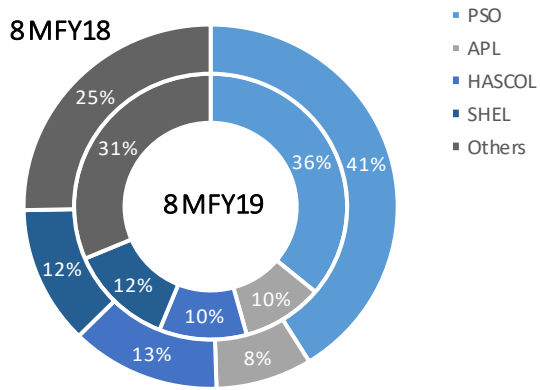


Exhibit: HSD Market Share - Company wise (8MFY19)

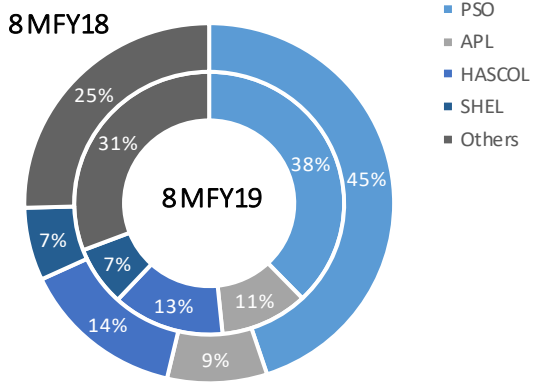
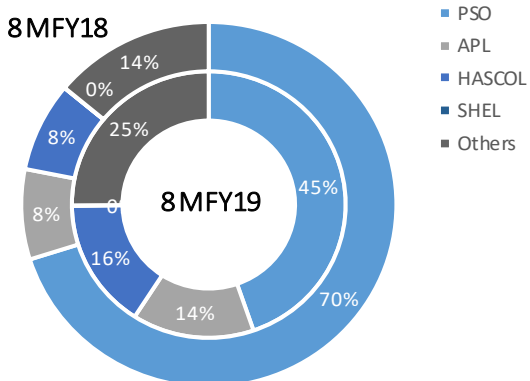


Exhibit: FO Market Share - Company wise (8MFY19)



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 2.5-3.0mn 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. More so, if recent drop in international oil prices sustain at current level, it may translate in to lower domestic prices leading to slight boost in volumes. Furthermore, with higher local prices, 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.

However, recent issue of PKR 200bn Sukuk to clear circular debt will benefit PSO the most in terms of cash flows and thus we prefer PSO and APL. While there is a possibility of another PKR 200bn Sukuk issue to follow, we believe this will further upgrade our stance on PSO and APL.

Recommendation

We maintain APL and PSO as our top pick with our Dec-19 target price of PKR 555.3/share and PKR 302.6/share offering +32% and +29% upside respectively from its last close. APL/PSO are currently trading at FY19F P/E of 7.3x/7.1x and offer a dividend yield of 9.5%/5.5%.

Exhibit:

OMC's Monthly Sales Volume (Feb-19)

000'tons	Feb-19	Jan-19	MoM	Feb-18	YoY	8MFY19	8MFY18	YoY
Industry								
MS	613.6	604.0	2%	527.2	16%	4,878.4	4,792.4	2%
HSD	583.9	536.5	9%	590.9	-1%	4,830.5	5,995.6	-19%
FO	171.4	360.0	-52%	247.1	-31%	1,986.0	4,912.4	-60%
Others	59.1	57.9	2%	90.1	-34%	471.1	719.5	-35%
Total	1,428.1	1,558.4	-8%	1,455.4	-2%	12,166.0	16,419.9	-26%
PSO								
MS	212.2	207.6	2%	186.2	14%	1,760.5	1,972.8	-11%
HSD	217.1	202.3	7%	234.4	-7%	1,829.4	2,694.1	-32%
FO	61.7	172.1	-64%	100.0	-38%	887.8	3,446.0	-74%
Others	50.2	49.4	2%	75.1	-33%	389.5	592.9	-34%
Total	541.2	631.4	-14%	595.8	-9%	4,867.1	8,705.8	-44%
APL								
MS	55.2	55.5	0%	47.4	16%	471.0	399.1	18%
HSD	52.0	53.1	-2%	56.8	-8%	509.2	523.7	-3%
FO	31.3	46.5	-33%	30.1	4%	286.0	392.0	-27%
Others	4.2	3.9	7%	3.7	12%	30.7	32.1	-5%
Total	142.7	159.0	-10%	138.0	3%	1,296.9	1,346.9	-4%
HASCOL								
MS	74.9	70.7	6%	68.5	9%	505.9	620.9	-19%
HSD	91.2	84.0	9%	93.8	-3%	649.7	862.3	-25%
FO	30.1	55.4	-46%	48.1	-37%	313.1	387.7	-19%
Others	0.4	0.4	4%	0.6	-25%	5.6	5.8	-4%
Total	196.6	210.5	-7%	210.9	-7%	1,474.2	1,876.7	-21%
SHEL								
MS	78.6	79.5	-1%	71.8	9%	609.8	586.6	4%
HSD	47.3	42.1	12%	47.1	0%	354.2	392.6	-10%
FO	-	-	0%	-	n/m	0.6	1.6	-61%
Others	1.9	2.0	-6%	7.5	-74%	26.2	63.2	-59%
Total	127.8	123.7	3%	126.4	1%	990.8	1,044.0	-5%

Source: IGI Research

Source: Company Financials, IGI Research

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Time Horizon: Dec – 2019

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(Discounted Cash Flow)

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