

Day Break

Friday, 04 May 2018

Sector Update

OMC Sales Data for Apr-18

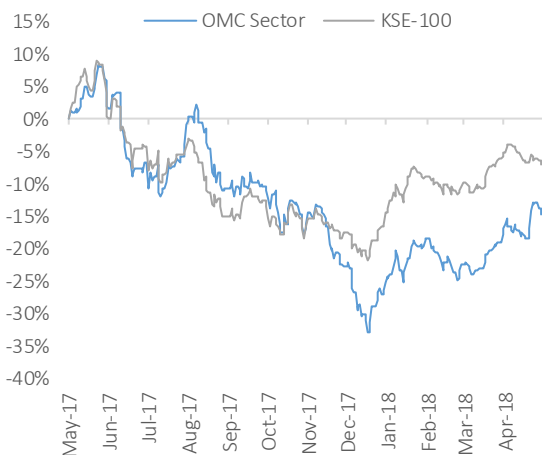
PSO Volumes (000' tons)				
	Apr-18	YoY	10MFY18	YoY
MS	234.5	7%	2,418.0	11%
HSD	305.3	-8%	3,263.2	4%
FO	182.4	-67%	3,782.5	-33%
Total	772.4	-34%	10,180.0	-12%

HASCOL Volumes (000' tons)				
	Apr-18	YoY	10MFY18	YoY
MS	101.6	50%	794.6	45%
HSD	123.9	21%	1,093.4	50%
FO	52.5	10%	504.8	3%
Total	278.7	27%	2,400.0	36%

SHEL Volumes (000' tons)				
	Apr-18	YoY	10MFY18	YoY
MS	81.9	-10%	749.3	-17%
HSD	57.8	-42%	503.0	-41%
FO	-	n/m	1.6	-98%
Total	154.1	-27%	1,339.2	-32%

APL Volumes (000' tons)				
	Apr-18	YoY	10MFY18	YoY
MS	60.3	27%	518.8	13%
HSD	75.2	-14%	688.0	5%
FO	64.9	9%	514.7	0%
Total	203.9	3%	1,761.5	5%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Marketing Companies

Apr-18: Stable generation on FO and reduced prices of MS drove industry volumes up by +4%MoM

- Industry volumes for oil marketing companies witnessed a decline of 16%YoY to 1.84mn Tons during Apr-18 bringing industry volumes for 10MFY18 to 20.07mn Ton down by meagre 4%YoY. To highlight, HASCOL and APL led the growth by posting +27%YoY and +3%YoY growth during Apr-18,
- MS sales increased by +14%YoY to 0.65mn Ton in Apr-18, on the back of increasing demand. HSD sales dropped by 4%YoY to 0.77mn Ton in Apr-18, while on monthly basis volumes increased by +5%MoM. FO volumes depicted a significant decline of 51%YoY to 0.37mn Ton in Apr-18 as Government of Pakistan (GoP) abruptly directed closure of inefficient FO based IPPs in Nov-17,
- We prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact, whereas disbursement of nearly PKR 80bn and PKR 100-200bn to be injected in power sector in May-18, will benefit PSO most in terms of easing working capital,
- We maintain PSO as our top pick with our Dec-18 target price of PKR 385/share offering +14% upside from its last close. PSO is currently trading at P/E of 6.7x and offers a dividend yield of 5.3%. We have a 'HOLD' stance on APL and HASCOL with our Dec-18 target price of PKR 677/share and PKR 328/share.

Volumes depict 16%YoY decline in Apr-18 to 1.86mn Tons

Industry volumes for oil marketing companies witnessed a decline of 16%YoY to 1.84mn Tons during Apr-18 bringing industry volumes for 10MFY18 to 20.07mnTon down by meagre 4%YoY. Motor Spirit (MS) sales posted a growth of +14%YoY during Apr-18, while Furnace Oil (FO)/High Speed Diesel (HSD) volumes reported a substantial decline of 4%/51%YoY. On a monthly basis, industry volumes recovered by +4%MoM in Apr-18 on the back of +9%/+5%MoM growth in MS/HSD sales. To highlight, HASCOL and APL led the growth by posting +27%YoY and +3%YoY growth during Apr-18.

MS; Demand remains strong amidst inflated domestic prices, HASCOL and APL stands tall

MS sales increased by +14%YoY to 0.65mn Ton in Apr-18, on the back of increasing demand. On monthly basis, volumes depicted a growth of +9%MoM, as domestic prices were reduced by PKR 2.07/ltr for the month of Apr-18. We believe MS demand to remain strong owing to a) increasing automobile sales, b) rise in CNG prices and, c) CNG curtailment. During the month, HASCOL and APL led the growth by posting +50%YoY and +27%YoY rise while SHEL remain laggard posting a decline of 10%YoY.

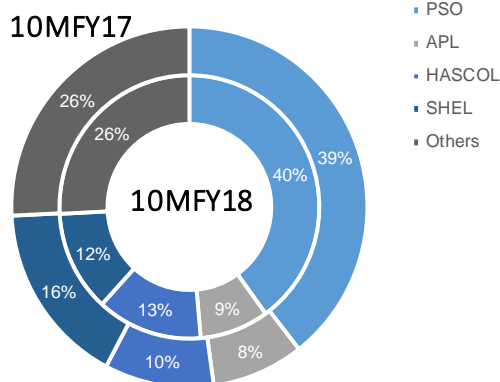
HSD; CPEC driving domestic demand with HASCOL leading the growth chart

HSD sales dropped by 4%YoY to 0.77mn Ton in Apr-18, while on monthly basis volumes increased by +5%MoM. In our view, demand for HSD is anticipated to remain strong owing to improving outlook of commercial transportation as infrastructure development projects pace up under CPEC. For HSD, HASCOL led the chart by +21%YoY growth in volumes, while SHEL, APL and PSO reported a decline of 42%YoY, 14%YoY and 8%YoY respectively.

FO; Sales remained depressed amid lower power generation on FO

FO volumes depicted a significant decline of 51%YoY to 0.37mn Ton in Apr-18 as Government of Pakistan (GoP) abruptly directed closure of inefficient FO based IPPs in Nov-17. However, on monthly basis, FO volumes remained flat as few FO based plants resumed operations as summer demand picked up while new LNG plants still remain closed due to technical issues. As a result, we expect FO based power plants to remain operational from Apr-18 onwards to fulfill supply shortage. For FO, HASCOL and APL led the growth by posting

Exhibit: MS Market Share - Company wise (10MFY18)



+10%YoY and +9%YoY jump in sales respectively, while all other OMCs witnessed a drop in volumes. However, on monthly basis PSO and APL led the growth by posting a +18%MoM and +12%MoM rise in volumes.

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, we believe 3.0-3.5mn Mton of FO demand to remain owing to continuation of efficient FO based power plants to assure smooth operation of energy chain and meet summer demand and supply shortfall. With APL expanding its storage capacity which has led to increase in market share for MS and HSD, we prefer APL as continued operations of Attock Refinery Limited (ATRL) to utilize local crude will keep FO sales in-tact. Further with disbursement of nearly PKR 80bn and PKR 100-200bn to be injected into power sector by May-18 to ease cash constraints, we highlight PSO to benefit most in terms of easing working capital.

Recommendation

We maintain PSO as our top pick with our Dec-18 target price of PKR 385/share offering +14% upside from its last close. PSO is currently trading at P/E of 6.7x and offers a dividend yield of 5.3%. We have a **'HOLD'** stance on APL and HASCOL with our Dec-18 target price of PKR 677/share and PKR 328/share.

Exhibit:

OMC's Monthly Sales Volume (Apr-18)

	000'tons	Apr-18	Mar-18	MoM	Apr-17	YoY	10MFY18	10MFY17	YoY
Industry									
MS	651	597.9	9%	572.5	14%	6,041.6	5,501.8	10%	
HSD	770	730.0	5%	798.0	-4%	7,495.6	6,937.7	8%	
FO	369.9	368.6	0%	757.2	-51%	5,650.9	7,703.0	-27%	
Others	72.7	91.9	-21%	91.3	-20%	884.1	860.8	3%	
Total	1,864.1	1,788.4	4%	2,219.1	-16%	20,072.3	21,003.3	-4%	
PSO									
MS	234.5	210.7	11%	219.2	7%	2,418.0	2,170.3	11%	
HSD	305.3	263.8	16%	332.8	-8%	3,263.2	3,140.2	4%	
FO	182.4	154.2	18%	549.4	-67%	3,782.5	5,653.3	-33%	
Others	50.3	73.2	-31%	70.3	-28%	716.3	624.8	15%	
Total	772.4	701.8	10%	1,171.6	-34%	10,180.0	11,588.5	-12%	
APL									
MS	60.3	59.5	1%	47.5	27%	518.8	460.0	13%	
HSD	75.2	89.1	-16%	87.1	-14%	688.0	654.5	5%	
FO	64.9	57.9	12%	59.4	9%	514.7	515.6	0%	
Others	3.6	4.3	-17%	4.1	-13%	40.1	39.6	1%	
Total	203.9	210.7	-3%	198.1	3%	1,761.5	1,669.7	5%	
HASCOL									
MS	101.6	72.1	41%	67.8	50%	794.6	547.1	45%	
HSD	123.9	107.2	16%	102.8	21%	1,093.4	726.8	50%	
FO	52.5	64.6	-19%	47.8	10%	504.8	490.6	3%	
Others	0.8	0.7	15%	0.3	148%	7.2	1.0	640%	
Total	278.7	244.6	14%	218.7	27%	2,400.0	1,765.4	36%	
SHEL									
MS	81.9	80.8	1%	91.2	-10%	749.3	906.9	-17%	
HSD	57.8	52.6	10%	100.3	-42%	503.0	846.6	-41%	
FO	-	-	0%	6.5	n/m	1.6	67.0	-98%	
Others	14.4	7.7	89%	13.7	6%	85.3	156.5	-46%	
Total	154.1	141.0	9%	211.7	-27%	1,339.2	1,977.0	-32%	

Source: IGI Research

Exhibit: HSD Market Share - Company wise (10MFY18)

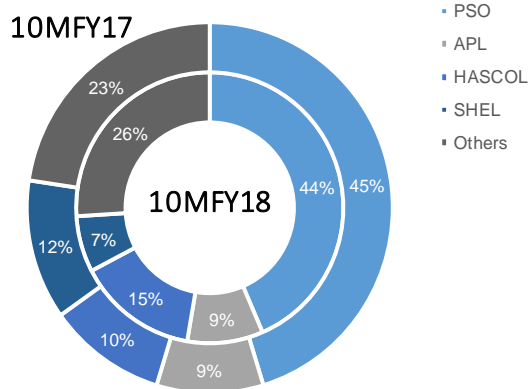
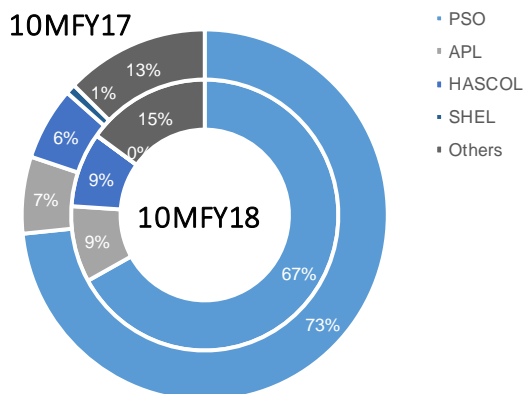


Exhibit: FO Market Share - Company wise (10MFY18)



Source: Company Financials, IGI Research

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