



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ OMC: Early start to seasonal upswing

Total POL product volume offtake for March'18 was at 1.78mn tonnes higher by 23%MoM but down 11%YoY where FO sales remained the major dampener to over-all volumes (-46%YoY) despite recovering from Feb'18 lows (+49%MoM). Uptick in retail fuel sales continued to remain a recurring theme where HSD/MS volumes grew +9%/+5%YoY and +24%/+14%MoM. On a cumulative basis for 9MFY18 total industry volume moved was at 18.22mn tonnes down -4%YoY where the declines in FO sales (-20%YoY) remained within our projections (decline of 21%YoY projected through to FY21F). A look at seasonality identifies the April-July summer season as a boon for the sector, where an early Ramzan, warmer weather outlook, looser COD timelines for new power projects could raise FO demand yet again. Rooted in these catalysts, accompanied by positive news flow on circular debt clearance (where any clearance, even a partial one benefits PSO the most), we re-iterate our ACCUMULATE stance on PSO, where 16% upside to our DCF based TP remains at current price levels.

#### KSE100 - Index

Current 45,741.43  
Previous 45,560.30  
Chg. 0.40%

#### Mkt Cap. (PkrBn/US\$bn)

Current 9,421 / 81.57  
Previous 9,371 / 81.14  
Chg. 0.54%

#### Daily Turnover (mn)

Current 262.52  
Previous 230.34  
Chg. 14.0%

#### Value Traded (PkrMn/US\$mn)

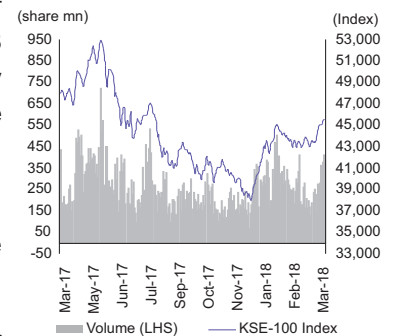
Current 12,182 / 105.48  
Previous 9,467 / 81.98  
Chg. 28.7%

AKD Daily

Tuesday, Apr 03, 2018

### News and Views

- As per news report, MoF is likely to keep fiscal deficit target at 4.5% of GDP for FY19 against the projected deficit of 5.5% for outgoing FY18 by tightening development expenditures. In this regard, the ministry expected to slash down the PSDP size to the tune of Pkr750bn for the upcoming budget as against the current allocation of Pkr1,001bn
- As per PBS, annual consumer price inflation clocked in at eight-month low of 3.2% in Mar'18 as subdued food prices offset the impact of rise in petroleum rates.
- In its recent verdict, the Lahore High Court (LHC) has declared former Prime Minister Nawaz Sharif's "Tax Incentive Scheme" introduced through SRO 1065(I)/2013 as illegal and without lawful authority.



Ali Asghar Poonawala  
ali.poonawala@akdsecurities.net  
111-253-111 Ext:646

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2018 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.

Our research is also available on ResearchPool (<https://www.researchpool.com/provider/akd-securities>) research@akdsecurities.net | www.akdsecurities.net



## OMC: Early start to seasonal upswing

Total POL product volume offtake for March'18 was at 1.78mn tonnes higher by 23%MoM but down 11%YoY where FO sales remained the major dampener to over-all volumes (-46%YoY) despite recovering from Feb'18 lows (+49%MoM). Uptick in retail fuel sales continued to remain a recurring theme where HSD/MS volumes grew +9%/+5%YoY and +24%/+14%MoM. On a cumulative basis for 9MFY18 total industry volume moved was at 18.22mn tonnes down -4%YoY where the declines in FO sales (-20%YoY) remained within our projections (decline of 21%YoY projected through to FY21F). A look at seasonality identifies the April-July summer season as a boon for the sector, where an early Ramzan, warmer weather outlook, looser COD timelines for new power projects could raise FO demand yet again. Rooted in these catalysts, accompanied by positive news flow on circular debt clearance (where any clearance, even a partial one benefits PSO the most), we re-iterate our ACCUMULATE stance on PSO, where 16% upside to our DCF based TP remains at current price levels.

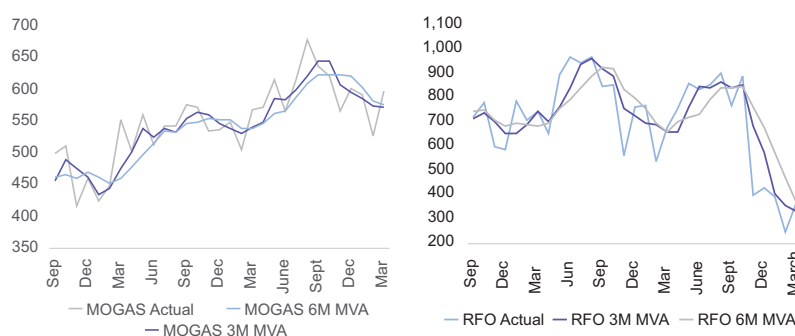
**Seasonality kicks in:** On a cumulative basis for 9MFY18 total industry volume moved was at 18.22mn tonnes down -4%YoY where the declines in FO sales (-20%YoY) remained within our projections (decline of 21%YoY projected through to FY21F). In terms of additional segments, HSD/MOGAS sales grew +2%/+9%YoY where seasonality is expected to assist in offtake growth, prominent in the May-July period. Additionally, for FO, looking at seasonality we identify the April-July summer season as a boon for power sector sourced demand, where an early Ramzan, warmer weather outlook, looser COD timelines for new power projects could raise FO demand yet again.

### Volume Based Marketshare

PSO	March'18	Feb'18	Jan'18	9MFY18	9MFY17
FO	41.8%	40.5%	51.3%	68.9%	73.7%
HSD	36.1%	39.7%	41.3%	44.1%	46.6%
MOGAS	35.2%	35.3%	37.6%	40.1%	40.0%
Total	39.3%	40.9%	44.7%	51.8%	55.3%
APL					
FO	15.6%	12.2%	10.8%	7.7%	6.5%
HSD	12.2%	9.6%	8.1%	9.1%	8.9%
MOGAS	10.1%	9.0%	8.6%	8.4%	8.3%
Total	11.8%	9.5%	8.6%	8.3%	7.7%
HASCOL					
FO	17.6%	21.8%	13.7%	8.7%	6.5%
HSD	14.7%	18.4%	15.4%	14.5%	9.9%
MOGAS	12.0%	15.0%	13.4%	12.7%	9.8%
Total	13.7%	16.6%	13.5%	11.7%	8.3%
SHEL					
HSD	7.2%	13.7%	7.4%	6.6%	11.3%
MOGAS	13.5%	16.0%	12.6%	12.2%	16.3%
HOBG (95+)	27.7%	24.4%	27.4%	26.9%	24.8%
JP	7.6%	23.4%	6.0%	6.6%	21.1%
KERO	1.6%	1.7%	2.4%	2.0%	2.1%
Total	7.9%	10.2%	7.5%	6.5%	9.4%

Source: OCAC & AKD Research

### MOGAS/FO Seasonal sales trends



Source: OCAC & AKD Research

**Some players have it right:** In terms of market players, SHEL/PSO/APL weathered volumetric shifts of -33%/-10%/+4%YoY while HASCOL continued to grow at +36%YoY during 9MFY18. MOGAS remained a brightspot for domestic OMCS where HASCOL/APL/PSO increased volumes in the segment by +42%/+11%/+10%YoY, giving credence to retail-led growth (and associated CAPEX) strategies.



**Investment Perspective:** Based on foreseeable enhancers for POL demand and possible circular debt clearance, we retain our liking for PSO, where despite the 10.7%MoM return for the stock, we believe an additional 16% upside remains to our fair value price of PkR384/sh from current prices, where the likelihood of payouts (FY18E/19F D/Y of 8.2/9.1%) remains strong.

**OMC Industry Volumetric Snapshot (000 Tonnes)**

Industry	March'18	March'17	YoY	Feb'18	MoM	9MFY18	9MFY17	YoY
<b>FO</b>	368	679	-46%	247	49%	5,246	6,537	-20%
<b>HSD</b>	730	672	9%	591	24%	6,716	6,560	2%
<b>MOGAS</b>	598	568	5%	527	14%	5,448	4,983	9%
<b>HOBC (95RON+)</b>	11	10	14%	10	13%	98	60	62%
<b>JP</b>	69	72	-3%	69	0%	610	638	-5%
<b>KERO</b>	9	12	-26%	10	-8%	85	86	-1%
<b>LDO</b>	2	2	1%	1	33%	13	12	9%
<b>Total</b>	1,787	2,015	-11%	1,455	23%	18,217	18,878	-4%
<b>PSO</b>								
<b>FO</b>	154	489	-69%	100	54%	3,614	4,816	-25%
<b>HSD</b>	264	273	-3%	234	12%	2,961	3,059	-3%
<b>MOGAS</b>	211	213	-1%	186	13%	2,185	1,995	10%
<b>HOBC (95RON+)</b>	4	5	-24%	4	5%	39	29	33%
<b>JP</b>	63	54	16%	64	-1%	565	487	16%
<b>KERO</b>	6	10	-33%	7	-11%	58	53	9%
<b>LDO</b>	1	1	45%	1	40%	6	5	22%
<b>Total</b>	702	1,044	-33%	596	18%	9,428	10,445	-10%
<b>APL</b>								
<b>FO</b>	57	51	11%	30	91%	403	422	-4%
<b>HSD</b>	89	65	37%	57	57%	613	582	5%
<b>MOGAS</b>	60	46	30%	47	27%	460	415	11%
<b>HOBC (95RON+)</b>	1	0	75%	1	7%	7	3	129%
<b>JP</b>	1	1	49%	1	97%	5	5	10%
<b>KERO</b>	2	2	15%	2	1%	20	24	-16%
<b>LDO</b>	1	1	-8%	0	38%	5	4	50%
<b>Total</b>	211	167	27%	138	53%	1,513	1,453	4%
<b>HASCOL</b>								
<b>FO</b>	65	51	27%	54	20%	456	423	8%
<b>HSD</b>	107	83	29%	109	-1%	972	651	49%
<b>MOGAS</b>	72	70	3%	79	-9%	693	489	42%
<b>HOBC (95RON+)</b>	1	0	200%	1	4%	7	1	
<b>Total</b>	244	204	20%	242	1%	2,127	1,563	36%
<b>SHEL</b>								
<b>HSD</b>	52	92	-43%	47	11%	443	744	-41%
<b>MOGAS</b>	81	91	-12%	72	12%	667	814	-18%
<b>HOBC (95/97RON)</b>	3	2	29%	3	7%	26	15	75%
<b>JP</b>	5	17	-69%	5	9%	40	135	-70%
<b>KERO</b>	0	0	-32%	0	80%	2	2	-5%
<b>Total</b>	141	206	-31%	127	12%	1,180	1,771	-33%

Source: OCAC & AKD Research



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.