



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ OMC: Retail Update 2QCY18

Amongst mounting set of dampeners for the OMC space, volumetric growth remains hinged on retail fuel sales. Hence, our quarterly analysis of sales volumes for HSD and MOGAS matched by quarterly retail outlets illustrate where future growth is expected to come from. For 2QCY18, we find strong retail network additions from HASCOL/PSO/APL with QoQ additions of 47/18/11 outlets, while SHEL continued to shed its retail footprint. Sales per outlet for listed OMCs reached 673.4Kltrs/outlet for 2QCY18 grew 6.1%QoQ but remaining flat YoY, signifying the limited impact of CNG and slowing discretionary demand for POL products. PSO's focus on retail operations seem to be paying off, as the state owned OMC grew its retail footprint (18 outlets added QoQ) while keeping sales per outlet on an uphill trajectory (580.6Kltrs/outlet rising 13%QoQ/6%YoY). Comfortable with our assumption for PSO (4.4%YoY growth in HSD and MOGAS sales through to FY20F) continued reliance on retail heavy CAPEX spurring growth for the state OMC, especially through its sizeable footprint, we have a TP of PkR399/sh on the stock, where an Accumulate stance is implied.

KSE100 - Index

Current 42,505.05
Previous 42,330.32
Chg. 0.41%

Mkt Cap. (PkRbn/US\$bn)

Current 8,744 / 70.50
Previous 8,699 / 70.13
Chg. 0.52%

Daily Turnover (mn)

Current 203.03
Previous 284.51
Chg. -28.6%

Value Traded (PkRmn/US\$m)

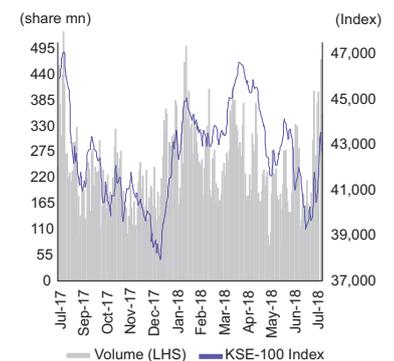
Current 9,369 / 75.53
Previous 11,370 / 91.66
Chg. -17.6%

AKD Daily

Monday, Aug 06, 2018

News and Views

- The US Congress has passed the National Defense Authorization Act for 2019 in which it significantly reduced security assistance to Pakistan. The security aid to Islamabad that once had started from almost US\$1bn to US\$750mn per year has been marked down to US\$150mn. However, the bill has also relaxed certain conditions like action against the Haqqani Network or LeT.
- As per latest figures, the Federal Board of Revenue (FBR) has collected total tax revenue of PkR3.751trn vs. revised annual target of PkR3.935trn for FY18. The total revenue collection fell short of PkR184bn compared to revised target of PkR3.935trn, with officials attributing the decline to subsidies and muted furnace oil demand.
- Latest industry data shows that total cement sales rose 5.1%YoY to 3.554mn tons in Jul'18 compared to total dispatches of 3.382mn tons recorded in Jul'17. Cement exports also increased 9.25%YoY to 0.520mn tons while local cement dispatches rose 4.42%YoY to 3.035mn tons.



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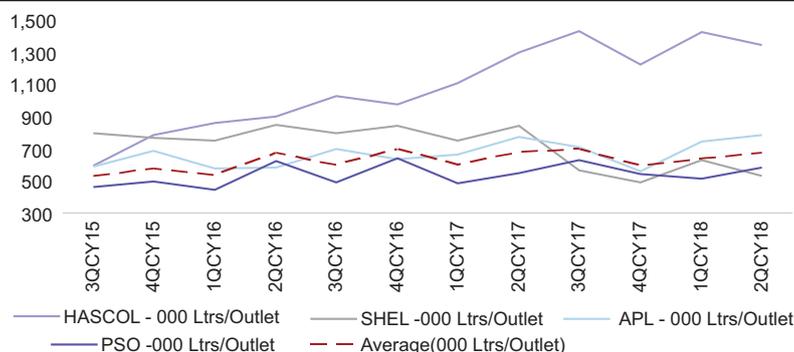


OMC: Retail Update 2QCY18

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Sector dampeners make retail more relevant: Dollar appreciation, apart from escalating local pump prices, raises external shocks for long term demand growth, as retail fuel demand could face curbs. Discretionary spending on travel leisure and inner city transport face clear headwinds (track auto sales for long term weakness). That said, industrial demand followed by logistics/transport led activity seems to soldier on, keeping retail HSD demand in place to support sales.

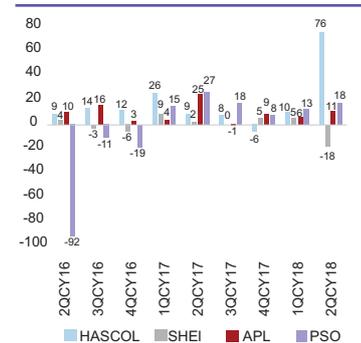
Quarterly retail fuel sales per outlet (000 ltrs/outlet)



Source: OCAC, OGRA & AKD Research

Disparity in sales performance: Sales per outlet for listed OMCs reached 673.4Kltrs/outlet rising 6.1%QoQ but remaining flat (-1.4%YoY), signifying limited the impact of CNG (despite LNG imports rising, CNG availability remains constrained) and slowing discretionary demand for POL products.

Quarterly Retail Network Changes



Source: PSX & AKD Research



Heterogeneous dynamics prevail when comparing relative performance, with HASCOL continuing to lead the pack in term of per outlet sales (~2x average sector sales per outlet), followed by APL (17% higher than average). On a cautionary note, SHEL's performance for the period has been exceptionally dismal, where sales per outlet at now well below PSO, where the latter has suffered from having an expansive retail network (3,515 outlets as of July 1st 2018).

Investment Perspective: The country's largest OMC remains stuck in a quagmire unique in the downstream space, and not entirely of its own making. Pricing remains sticky, as global crude benchmarks remain at levels last seen in 2013, incidentally this coincides with the current total industry POL volume upcycle. The demise of FO and rise of RLNG extends the impact of global oil prices to over-all industry dynamics. In this regards, from a retail perspective PSO stands tall, where we are comfortable with our assumption for PSO continued reliance on retail heavy CAPEX spurring growth for the state OMC, especially through its sizeable footprint, we have a TP of PkR399/sh on the stock, where an Accumulate stance is implied.



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