



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ OMCs: RFO drags growth signaling an end to smooth sailing

January volumetric offtake clocked in at 1.79mn tonnes, -4%MoM/-13%YoY, while FO sales (at 0.39mn tonnes -9%MoM/-49%YoY) kept a lid on otherwise strong retail offtake (MOGAS/HSD offtake -2/-7%MoM but +8/+10%YoY). Cumulative 7MFY18 volumes amounted to 14.97mn tonnes, remaining flat, where a -19%YoY dip in FO sales (1.10mn tonne fall) was met by retail fuels (MOGAS /HSD +12/+11%YoY, adding 1.01mn tonnes to industry volumes). From a long-term growth perspective, YoY growth for HSD outpaced 5YR CAGR (11%YoY vs. 7%) whereas MOGAS sales fell behind (12%YoY vs. 18%). This lands industry demand in a situation where HSD and MOGAS growth can be flagged as being mid-cycle, while a down-cycle for FO sales makes the operating environment tough, in our view. OMC's delivered mixed performance over the period, where 7MFY18 growth in volumes was +40%/0%/ -4% for HASCOL/APL/PSO allowing them to hold 11%/8%/54%. HASCOI continued its superior sales run adding to its market share and ending the month by moving 13.5% of volumes (vs. 11.4% in Dec'17), signifying the persistence of strong growth credentials. At current levels we believe the growth vs. value proposition favors APL where the stock offers 24% upside to our FCF based TP of PkR725/sh.

#### KSE100 - Index

Current 44,255.48  
Previous 44,049.05  
Chg. 0.47%

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

Current 9,138 / 82.66  
Previous 9,136 / 82.64  
Chg. 0.02%

#### Daily Turnover (mn)

Current 228.32  
Previous 288.59  
Chg. -20.9%

#### Value Traded (PkRmn/US\$m)

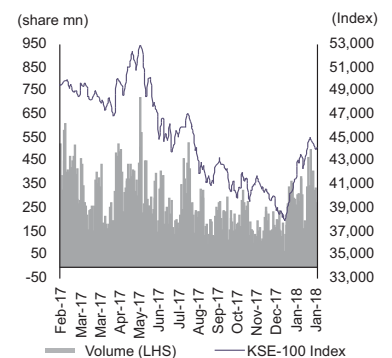
Current 9,757 / 88.26  
Previous 11,883 / 107.49  
Chg. -17.9%

AKD Daily

Friday, Feb 02, 2018

### News and Views

- As per news reports, the federal government is likely to discontinue subsidy of PkR3/KWh extended to the industrial sector by the former Prime Minister Nawaz Sharif in 2015 as Finance Division is unwilling to release funds against the Discos claims. To recall, ECC in Jan 2016 decided to reduce power tariff for the industrial consumer by PkR3/kwh for the FY16.
- Pakistan's annual inflation clocked in at 4.4%YoY in Jan'18 vs 3.7%YoY in the same month last year mainly due to hike in petroleum prices and seasonal uptick in housing rent. However, on account of low food prices it remained below 4.6%YoY recorded in Dec'17. Consequently, average CPI for 7MFY18 recorded at 3.85%YoY, whereas NFNE inflation increased by 5.2%YoY vs 5.5%YoY in the previous month.
- The country's total liquid foreign exchange reserves amounted to US\$19.354bn on Jan 26, down by US\$285.9mn (or 1.45%WoW). Whereas, Reserves of the SBP decreased by US\$298mn to US\$13.234bn on account of payments of external debt servicing and other official outflows.



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



## OMCs: RFO drags growth signaling an end to smooth sailing

January volumetric offtake clocked in at 1.79mn tonnes, **-4%MoM/-13%YoY**, while FO sales (at 0.39mn tonnes **-9%MoM/-49%YoY**) kept a lid on otherwise strong retail offtake (MOGAS/HSD offtake **-2/-7%MoM** but **+8/+10%YoY**). Cumulative 7MFY18 volumes amounted to 14.97mn tonnes, remaining flat, where a **-19%YoY** dip in FO sales (1.10mn tonne fall) was met by retail fuels (MOGAS /HSD **+12/+11%YoY**, adding 1.01mn tonnes to industry volumes). From a long-term growth perspective, YoY growth for HSD outpaced 5YR CAGR (11%YoY vs. 7%) whereas MOGAS sales fell behind (12%YoY vs. 18%). This lands industry demand in a situation where HSD and MOGAS growth can be flagged as being mid-cycle, while a down-cycle for FO sales makes the operating environment tough, in our view. OMC's delivered mixed performance over the period, where 7MFY18 growth in volumes was **+40%/0%/-4%** for HASCOL/APL/PSO allowing them to hold **11%/8%/54%**. HASCOL continued its superior sales run adding to its market share and ending the month by moving 13.5% of volumes (vs. 11.4% in Dec'17), signifying the persistence of strong growth credentials. At current levels we believe the growth vs. value proposition favors APL where the stock offers 24% upside to our FCF based TP of PkR725/sh.

**Retail fuels demand remains robust:** Industry-wide YoY 7MFY18 MOGAS/HSD offtake presents a mixed picture where HSD demand remains ahead of long term trends (11.1%YoY growth in industry volumes for 7MFY18 vs. 5YR CAGR of 7.4%), and MOGAS demand is expected to pick-up (12.2%YoY growth vs. 5YR CAGR of 18.4%). Seasonality in transport led demand supports our upbeat stance on the continuation of this trend, as we approach summer months. HASCOL/PSO/APL continued to grow in both segments, recording MOGAS offtake growth of 54/16/8%YoY and HSD offtake rising 62/9/5%YoY.

**HASCOL seems to beat the base:** Despite the inevitable slowdown in growth, HASCOL's HSD/MOGAS volumes for 7MFY18 were at 62/55%YoY, lower than 5YR CAGR of 75/92% owing to the waning out of the low base effect. That said, HASCOL's growth remain the most exciting in the space, where the 0.49mn tonne cumulative increase in HSD and MOGAS volumes accounts for 48% of overall volume growth in these segments. Management's strategy of leveraging its lean sourcing methods, increased storage from planned expansions coming online (Thalian and Kotla Jam depot cumulative capacity of 80,000tonnes completed during Jan'18) while offering discounts (particularly for HSD) seems to be paying off.

**Outlook:** As HSD and MOGAS sales are increasingly catalyzing sales growth, we look at the pricing break-up of both these segments, over the recent spate of price hikes (4/5 months of consecutive price hikes for

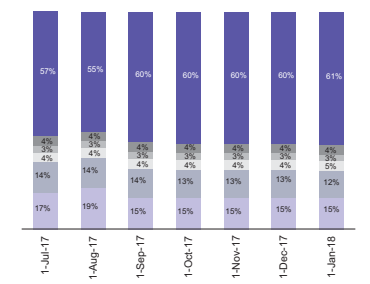
### Volume Based Marketshare

PSO	Jan'18	Dec'17	Nov'17	7MFY18	7MFY17
FO	51.3%	67.6%	71.6%	72.6%	74.0%
HSD	41.3%	51.6%	46.4%	45.6%	46.7%
MOGAS	37.6%	39.8%	39.7%	41.4%	40.1%
Total	44.7%	52.8%	51.5%	54.3%	56.3%
APL	Jan'18	Dec'17	Nov'17	7MFY18	7MFY17
FO	10.8%	10.9%	7.0%	6.8%	6.4%
HSD	8.1%	8.1%	8.1%	8.7%	9.1%
MOGAS	8.6%	7.6%	7.9%	8.1%	8.4%
Total	8.6%	8.4%	7.6%	7.8%	7.7%
HASCOL	Jan'18	Dec'17	Nov'17	7MFY18	7MFY17
FO	13.7%	9.1%	7.7%	7.4%	6.3%
HSD	15.4%	13.3%	12.8%	14.3%	9.8%
MOGAS	13.4%	12.1%	12.2%	12.8%	9.3%
Total	13.5%	11.4%	11.0%	11.2%	7.9%

Source: OCAC & AKD Research

### MOGAS Price Breakup

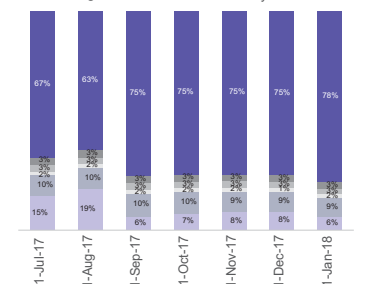
- Sales tax as % of Price
- IFEM as % of Price
- Dealer Margin as % of Price
- PDL as % of Price
- OMC Margin as % of Price
- Ex-refinery as % of Price



Source: OGRA & AKD Research

### HSD Price Breakup

- Sales tax as % of Price
- IFEM as % of Price
- Dealer Margin as % of Price
- PDL as % of Price
- OMC Margin as % of Price
- Ex-refinery as % of Price



Source: OGRA & AKD Research



HSD/MOGAS). Increased ex-refinery prices (underpinned by import parity pricing) and steady decline in sales tax are encouraging trends, where the ~32%/~16% additional levies built into the cost of MOGAS/HSD are hurting pricing power. Additionally, delayed implementation of HSD margin deregulation (still at PKR2.41/ltr) raised pressures on margins.

### OMC Volumes Snapshot (000 Tonnes)

Industry	Jan'18	Jan'17	YoY	Dec'17	MoM	7MFY18	7MFY17	YoY
<b>FO</b>	394	771	-49%	431	-9%	4,631	5,733	-19%
<b>HSD</b>	707	642	10%	759	-7%	5,395	4,857	11%
<b>MOGAS</b>	591	547	8%	602	-2%	4,323	3,851	12%
<b>HOBC (95RON+)</b>	12	8,637	34%	11	6%	77	38	102%
<b>JP</b>	82	73	12%	60	37%	471	500	-6%
<b>KERO</b>	8	10	-24%	9	-12%	66	70	-6%
<b>LDO</b>	1	2	-29%	1	52%	10	10	5%
<b>Total</b>	1,794	2,053	-13%	1,872	-4%	14,974	15,060	-1%
<b>PSO</b>								
<b>FO</b>	202	580	-65%	291	-31%	3,360	4,240	-21%
<b>HSD</b>	292	273	7%	391	-25%	2,463	2,269	9%
<b>MOGAS</b>	222	207	7%	240	-7%	1,788	1,545	16%
<b>HOBC (95RON+)</b>	4	5	-7%	4	6%	32	20	54%
<b>JP</b>	76	59	30%	56	38%	439	356	23%
<b>KERO</b>	5	6	-21%	6	-25%	44	42	5%
<b>LDO</b>	1	0	29%	0	83%	5	4	28%
<b>Total</b>	802	1,129	-29%	988	-19%	8,131	8,479	-4%
<b>APL</b>								
<b>FO</b>	43	54	-21%	47	-9%	316	365	-13%
<b>HSD</b>	57	68	-16%	61	-7%	467	444	5%
<b>MOGAS</b>	51	45	14%	46	12%	352	325	8%
<b>HOBC (95RON+)</b>	1	0	88%	1	-3%	5	1	356%
<b>JP</b>	1	0	65%	0	52%	3	4	-10%
<b>KERO</b>	2	3	-13%	2	27%	16	20	-22%
<b>LDO</b>	0	1	-47%	0	18%	4	3	50%
<b>Total</b>	155	171	-9%	157	-1%	1,164	1,162	0%
<b>HASCOL</b>								
<b>FO</b>	54	54	0%	39	37%	343	360	-5%
<b>HSD</b>	109	80	35%	101	8%	771	476	62%
<b>MOGAS</b>	79	62	28%	73	9%	552	358	54%
<b>HOBC (95RON+)</b>	1	0		1	-11%	5	0	
<b>Total</b>	242	197	23%	214	13%	1,672	1,194	40%

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.