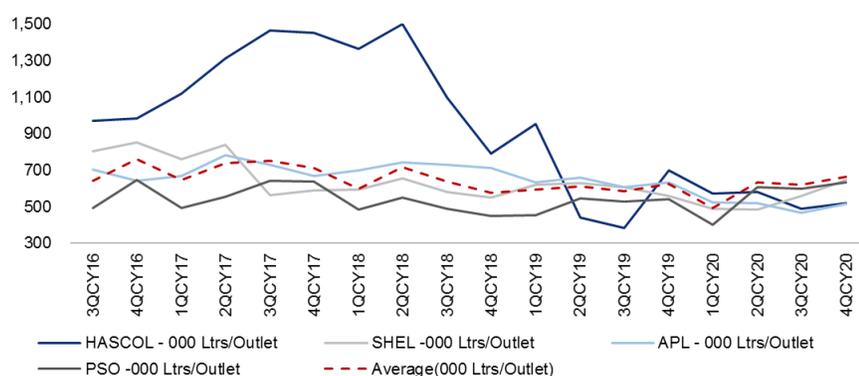


## Throughput reflecting decreased grey product

- Increase in volumes directly lifted throughput levels, with 4QCY20 retail volumes at 4.7mn tons, up 12%YoY largely due to a 15%YoY increase in HSD while sequential increase in retail fuels' volume stood at 12% as economic activity remained upbeat while.
- Company-wise, HASCOL/SHEL/APL/PSO delivered throughput levels of 521k/648k/515k/635k ltrs/outlet, moving -25%/+16%/-19%/+17%YoY and +7%/+16%/+10%/+7% QoQ taking total average industry throughput +7%YoY/+6%QoQ to 663k ltrs/outlet.
- Difference between throughput level of HSD and MS standing 102k ltrs/pump for 4QCY20 against 164k ltrs/pump for 3QCY20 again points to the significant decrease in smuggling where moving forward, government's continued drive against influx of grey product will further improve HSD offtake.
- PSO (TP: PKR293.1/sh, 21% upside) is our top pick from the sector where medium term developments include clearance of circular debt and shift in cash profile of cash flows due to increased share of retail fuels while focus on improving storage infrastructure will result in company sustaining the recently gained market share.

**Listed players losing market share:** Despite improving economic activity, increased power generation on FO due to gas shortage has slightly reduced share of retail fuels in overall volume mix with retail fuel share standing at 84% for 4QCY20 against 85% for 4QCY20. Sector wise consumption provides credence to improving demand of transport fuels as share of transport sector in HSD segment increased to 92% from 89% in 3QCY20. MS continues to be dominated by road segment, contributing ~99% of total sales. Listed players have lost market share to unlisted players in retail fuel segment with share of listed companies standing 67% for 4QCY20 against 68% for 4QCY19 where APL witnessed largest contraction as company's retail fuel market share declined to 7.2% for 4QCY20 against 9.2% for 4QCY19.

### Quarterly retail throughput for listed players

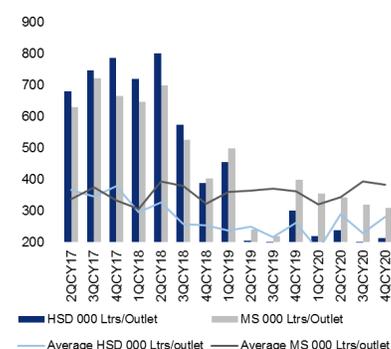


Source: OCAC & AKD Research

**Throughput levels increase by 6%YoY for 4QCY20:** Confluence of improving economic activity post lifting of COVID-19 related restrictions and government's continued drive against influx of grey product has resulted in throughput levels of listed OMCs increasing by 6/7% YoY/QoQ to 663k tons. HSD throughput witnessed a higher increase of 7/23% YoY/QoQ as the fuel was most affected by influx of grey product while MS throughput inched up by 5.7%YoY, however declined by 2.3% on sequential basis as seasonality in the shape of decreased mobility due to winter came into effect. Company-wise, HASCOL/SHEL/APL/PSO delivered throughput levels of 521k /648k / 515k /635k ltrs/outlet, moving -25%/+16%/-19%/+17%YoY and +7%/+16%/+10%/

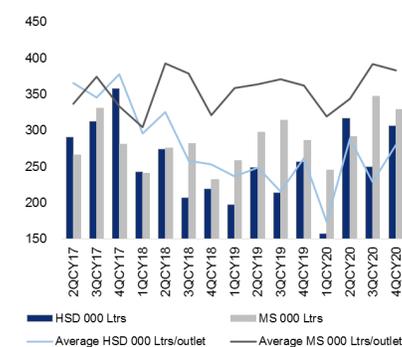
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### HASCOL's throughput continues to remain depressed



Source: OCAC & AKD Research

### PSO recovering lost share



Source: OCAC & AKD Research

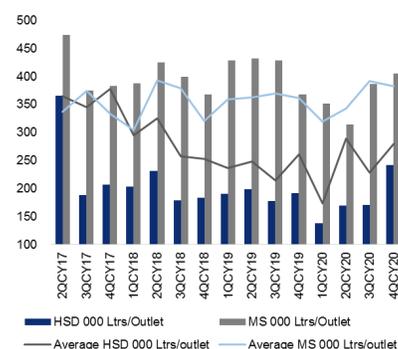


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+7%QoQ taking total average industry throughput +6%YoY/+7%QoQ to 663k ltrs/outlet. Financial constraints continue to grapple HASCOL with company's throughput decreasing by 25%YoY while PSO outperformed listed peers with a growth of 17%YoY as company continues to capitalize on widespread storage network. In terms of retail expansions, APL/PSO/SHEL/HASCOL added 11/10/1/14 outlets during 4QCY20.

**Outlook:** Difference between throughput level of HSD and MS standing 102k ltrs/pump for 4QCY20 against 164k ltrs/pump for 3QCY20 again points to the significant decrease in smuggling where moving forward, government's continued drive against influx of grey product will further improve HSD offtake. Post winter, MS sales are expected to pick up as well with overall economic activity on an upward trend. Difference between throughput levels of HSD and MS also sheds light on strategies adopted by different players where SHEL's strategy of mainly focusing on urban centers has resulted in highest difference of 164k ltrs/pump while difference for PSO stands at 23k ltrs/pump, highlight company's widespread retail network. Moving forward, with overall competitive landscape improving after incorporation of exchange losses and reduced exposure to oil price volatility, we expect competition to only intensify with players focusing on discounts and loyalty cards. PSO (TP: PkR293.1/sh, 21% upside) is our top pick from the sector where medium term developments include clearance of circular debt and shift in cash profile of cash flows due to increased share of retail fuels while focus on improving storage infrastructure will result in company sustaining the recently gained market share.

**SHEL's throughput level**



Source: OCAC & AKD Research

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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