AKD Daily

Thursday, Jan 05, 2017

# *Today's Daily*

## Downstream Oil: Dec'16 Volumes are too good to last

**Robust growth in demand for POL products, underpins Dec'16 total volumetric offtake of 2.08mn tons, climbing 1.4%MoM/21.6%YoY. FO sales were a bright spot rising 35.5%MoM/30.4%YoY, followed by retail fuel segment where HSD sales grew 23.7%YoY but dipped 20%MoM, whereas MOGAS demand continued to soar (growing 16.7%YoY), yet remaining tepid sequentially (0.3%YoY increase). 1HFY17 volumes point to 18%YoY growth in total volumes, led by 20%/16%/20%YoY growth in FO/HSD/MOGAS offtake. The picking up of volumes at this pace is likely to slow in our view, reverting to 5/10YR volumetric growth CAGR's of 6%/4%. That said, 2HFY17 is likely to be slightly better (5YR average 2HFY sales make up ~53% of annual offtake), led by strong growth in retail fuels (from May'17 onwards). Premium fuels sales continue to soar, where 1HFY17 sales of 29,547tons marks a 37%YoY increase, making FY16 full year sales of 41,067tons pale in comparison. Renewed force to regain market share remains prominent in PSO's numbers, where the OMC is slated to benefit from its vast retail network (3,416 outlets as of Dec'16). Re-iterating our liking for the country's largest OMC, which trades at an appealing FY17/18F P/E of 9.8/8.2x, and at a TP of PkR493.5/sh, offers 7% upside.**

**KSE100 - Index**

| | |
|---|---|
| Current | 48,704.99 |
| Previous | 48,827.55 |
| Chg. | -0.25% |

**Mkt Cap. (PkRbn/US$bn)**

| | |
|---|---|
| Current | 9,752 / 93.01 |
| Previous | 9,795 / 93.42 |
| Chg. | -0.44% |

**Daily Turnover (mn)**

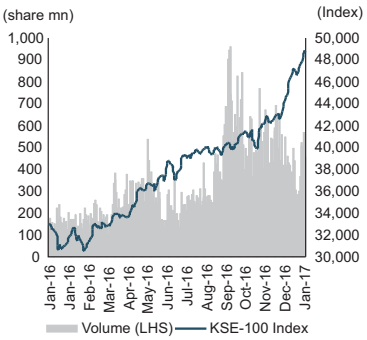
| | |
|---|---|
| Current | 403.81 |
| Previous | 501.26 |
| Chg. | -19.4% |

**Value Traded (PkRmn/US$mn)**

| | |
|---|---|
| Current | 21,768 / 207.62 |
| Previous | 27,178 / 259.22 |
| Chg. | -19.9% |

## News and Views

- GoP raised PkR251.2bn through its bi-monthly MTB auctions compared to its target of PkR150bn. Healthy participation was witnessed in the auction, with total bids amounting to PkR634.5bn were received. Cut off yield for 3mth and 6mth bills dipped slightly to 5.9463% (down 4.4bps) and 5.9896% (down 2bps). Cut off yield for the 12mth bill was recorded at 5.9935% with PkR25bn raised under the tenor.
- As per news report, GoP amnesty announced for the real estate sector's undocumented transactions has so far whitened at least PkR2.7bn worth of property investments, while the exercise earned the tax authorities PkR82mn during the past one month.
- China has agreed to finance Eastbay Expressway, connecting Gwadar Port and its free zone directly to highway, with PkR15bn interest-free loan under the CPEC.

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**Volumes upbeat for Dec'16:** Looking at company-wise sales, HASCOL remained on its path to market penetration, where total volumes increased 31%MoM/80.4%YoY for the month, solidifying market share to 9.2% from 6.2% during Dec'15 (increase of ~85,000 tons). Even though sequential sales were low by 3.5%/2.4%MoM for PSO/APL, PSO continues its YoY spur in volumes (now on its 8th consecutive month) reclaiming market share (at 54.1% for Dec'16 vs. 52.7% for Dec'15), where retail fuels led the charge (HSD/MOGAS volumes increased 19.8/14.3%YoY). APL lagged behind, where total volumes for the month were lower by 2.4%MoM/17.0%YoY, losing market share (7.5% vs. 10.9% in Dec'15).

**Where do we go now:** Recording strong pickup in total industry volumes (18%YoY), FY17E remains promising, with growth up till now (YoY increase in volumes of 1.98mn tons for 1HFY17), more than 3x the quantum witnessed in 1HFY16 (YoY volume growth of 0.59mn tones). Looking further ahead, a slowdown in the medium term may be likely, reverting to longer term, 5/10YR volumetric growth CAGR's of 6%/4%. That said, 2HFY17 is likely to be slightly better (5YR average 2HFY sales make up 53% of annual offtake), led by strong growth in retail fuels. A retrenchment of market shares, and slowing of earnings growth thus remains likely, where OMC's with expansive retail outlets and storage are expected to maintain market shares.

**PSO is going strong:** Keeping our focus on the growth in retail fuel demand, and furthering our hypothesis of market penetration in this

segment fueling earnings growth for OMC's, we highlight the emphasis placed on this segment by PSO. Remaining the laggard of the sector, PSO has underperformed its listed peers, which in light of 6MFY17 sales growth of 20%YoY (led by FO/HSD/MOGAS sales growth of 26/17/11%) is unwarranted, in our view. Renewed force to regain market share remains prominent in PSO's operations, where the OMC is slated to benefit from retail fuels segment. Re-iterating our liking for the country's largest OMC, which trades at an appealing FY17/18F P/E of 9.8/8.2x, at a TP of PkR493.5/sh, offers 7% upside.

## Downstreal Oil Volumes Snapshot

| (in Ton'000) | 6MFY16 | YoY% | 6MFY17 | YoY% | Dec'15 | YoY% | Dec'16 | YoY% |
|---|---|---|---|---|---|---|---|---|
| Industry | | | | | | | | |
| FO | 4,128 | -8% | 4,962 | 20% | 587 | 1% | 766 | 30% |
| HSD | 3,623 | 5% | 4,216 | 16% | 563 | 6% | 697 | 24% |
| MOGAS | 2,755 | 33% | 3,305 | 20% | 460 | 20% | 536 | 17% |
| HOBC (95/97RON) | 22 | 195% | 30 | 37% | 4 | 131% | 9 | 150% |
| JP | 395 | 39% | 426 | 8% | 80 | 59% | 63 | -21% |
| KERO | 85 | -8% | 60 | -29% | 17 | 28% | 11 | -38% |
| LDO | 15 | -36% | 8 | -45% | 2 | -22% | 2 | -9% |
| Others | - | | - | | | | | |
| Total | 11,022 | 6% | 13,007 | 18% | 1,713 | 10% | 2,084 | 22% |
| **APL** | **6MFY16** | **YoY%** | **6MFY17** | **YoY%** | **Dec'15** | **YoY%** | **Dec'16** | **YoY%** |
| FO | 337 | -38% | 311 | -8% | 54 | -39% | 45 | -17% |
| HSD | 373 | 3% | 376 | 1% | 67 | 16% | 61 | -9% |
| MOGAS | 213 | 43% | 280 | 32% | 62 | 126% | 46 | -27% |
| JP | 3 | 45% | 3 | -2% | 1 | 27% | 1 | -10% |
| KERO | 15 | 19% | 17 | 16% | 2 | -30% | 2 | 2% |
| LDO | 1 | -11% | 2 | 65% | 0 | 39% | 0 | 159% |
| Others | - | -100% | - | | - | | - | |
| Total | 943 | -12% | 990 | 5% | 187 | 5% | 155 | -17% |
| **PSO** | **6MFY16** | **YoY%** | **6MFY17** | **YoY%** | **Dec'15** | **YoY%** | **Dec'16** | **YoY%** |
| FO | 2,913 | -3% | 3,660 | 26% | 401 | 21% | 543 | 35% |
| HSD | 1,710 | 2% | 1,996 | 17% | 259 | -1% | 310 | 20% |
| MOGAS | 1,211 | 26% | 1,338 | 11% | 187 | 7% | 213 | 14% |
| MOGAS | 11 | 199% | 16 | 39% | 2 | 114% | 5 | 172% |
| JP | 233 | 18% | 298 | 28% | 44 | 44% | 50 | 13% |
| KERO | 60 | -6% | 36 | -39% | 10 | 9% | 6 | -34% |
| LDO | 7 | | 3 | | 1 | -11% | 1 | -38% |
| Others | 1 | #DIV/0! | - | -100% | - | | - | |
| Total | 6,146 | | 7,348 | | 903 | 12% | 1,128 | 25% |
| **HASCOL** | **6MFY16** | **YoY%** | **6MFY17** | **YoY%** | **Dec'15** | **YoY%** | **Dec'16** | **YoY%** |
| FO | 209 | -16% | 306 | 46% | 30.657 | -43% | 56 | 83% |
| HSD | 272 | 36% | 396 | 45% | 44.517 | 49% | 84 | 89% |
| Total | 176 | 77% | 296 | 68% | 30.657 | 42% | 51 | 66% |
| Total | 657 | 20% | 998 | 52% | 106 | 0% | 191 | 80% |

Source:OCAC & AKD Research

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| | |
|---|---|
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| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |

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