

PAKISTAN OMCs

MARKET VISTA

FO continues to drive volumes

- OMC volumes witnessed an increase of 16%YoY for Dec'20 led by FO as the fuel witnessed a massive growth of 1.1x/41% YoY/MoM while retail fuels posted a growth of 10%YoY where MS/HSD posted YoY growth of 5/13% however declined on MoM basis by 3/22%.
- Overall, local OMC sales continued on a strong footing, up 12%YoY for 1HFY21 (up 8% excluding FO) where seasonal uptick in FO demand for power generation over the period drove growth of 38%YoY while MS/HSD followed with growth of 8/13% YoY.
- Market shares remain fluid with PSO/APL/HASCOL/SHEL accounting for market shares of 45/8/5/8% during Dec'20 where a comparison with Dec'19 reveals decreasing share of HASCOL/APL by 2/3ppts while market share of PSO/SHEL increased by 2/1ppt.
- PSO (TP: PkR293.1/sh, 18.2% upside) is our top pick 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, moving forward. At the other end of the spectrum, APL (TP:PkR434.3/sh, 30.5% upside) has inherent 'anti-bodies' against sector head-winds with a strong balance sheet, high cash flow generation (PkR4.1bn avg. OCF for FY21-24) and progress on storage capability to improve market share.

OMC volumes increased by 16%YoY for Dec'20: OMC volumes continued on a growth trajectory with an increase of 16% YoY, standing at 1.6mn tons for Dec'20 however sequential decline of 7% was witnessed on the back of slow economic activity due to winter. FO led the pack with an increase of 1.1xYoY driven majorly by demand from power sector as shortage of gas has resulted in power production shifting towards other fuels while on MoM basis FO demand grew by 41%. Retail fuels followed with an increase of 10%YoY where HSD outshone with a growth of 13%YoY while MS grew by 5%YoY. Apart from improved economic activity, one major reason for uptick in HSD volumes could be increased use in power generation. Though HOBC forms very small part of total sales mix (0.9% for 1HFY21), recent decrease in prices and depleted premium over notified MS prices have provided a significant boost to the product's sales (significant switching), increasing by 1.8xYoY for 1HFY21. With continued restrictions over air travel, JP continues to suffer with a decline of 47/5% YoY/MoM. For 1HFY21, total OMC sales increased by 12%YoY where FO witnessed the highest increase of 38%YoY followed by 8/13%YoY increase in MS/HSD.

PSO performed better than peers: PSO continues to improve market share where after recent increase in retail fuel volumes of 17%YoY for Dec'20 against 11%YoY of the industry, retail fuel market share has increased to 45% for 1HFY21 against 42% in 1HFY20. However company seems to be losing share in the FO segment (50% for 1HFY21 vs. 55% in 1HFY20) resulting in overall market share remaining stagnant at 46% for 1HFY21. On the other hand, APL continues to be among the laggards with company's retail volumes down by 16%YoY which management attributes to lower consumption of HSD by power plants while we believe new entrants eating up the share is also playing a part. HASCOL continues to face the brunt of financial woes as retail fuel volumes witness a decline of 1.8%YoY for 1HFY21 where the injury was more pronounced in HSD (down 13%YoY). Moreover, unlisted players have acquired significant chunk with market share for 1HFY21 standing at 33% against 31% in 1HFY20.

Outlook: OMC volumes improving with an impressive growth of 12%YoY for 1HFY21 is a good omen in our view where volumes are expected to continue growth with economic activity picking up pace post lifting of COVID-19 related restrictions. However, the increasing risk of second wave of COVID-19 poses a threat and in case lockdowns become widespread, a slowdown in volumes cannot be ruled out (we have incorporated an increase in MS/HSD sales of 10/6%YoY for FY21F). An upside of increased restrictions can be strict border controls which can contain the influx of grey, boosting HSD sales. PSO (TP: PkR293.1/sh, 18.2% upside) is our top pick where medium term developments include clearance of circular debt and shift in cash profile of cash

Shahrukh Saleem
shahrukh.saleem@akdsecurities.net
111-253-111 Ext:637

Volume Based Marketshare

PSO	Dec'20	Dec'19	1HFY21	1HFY20
FO	44%	37%	50%	55%
HSD	48%	44%	48%	45%
MOGAS	42%	39%	42%	40%
Total	45%	43%	46%	46%
APL				
FO	11%	28%	19%	18%
HSD	7%	11%	7%	10%
MOGAS	8%	9%	7%	9%
Total	8%	11%	9%	11%
HASCOL				
FO	0%	3%	0%	3%
HSD	4%	8%	6%	7%
MOGAS	6%	8%	7%	7%
Total	5%	7%	5%	6%
SHEL				
HSD	9%	7%	8%	8%
MOGAS	11%	9%	10%	11%
HOBC	18%	30%	18%	31%
Total	8%	7%	8%	8%

Source: OCAC & AKD Research



flows due to increased share of retail fuels while focus on improving storage infrastructure will result in company sustaining the recently gained market share, moving forward. At the other end of the spectrum, APL (TP:PKR434.3/sh, 30.5% upside) has inherent 'anti-bodies' against sector head-winds with a strong balance sheet, high cash flow generation (PKR4.1bn avg. OCF for FY21-24) and progress on storage capability to improve market share.

OMC Industry Volumetric Snapshot (000 Tonnes)

Industry	Dec'20	Dec'19	YoY	Nov'20	MoM	1HFY21	1HFY20	YoY
FO	240	115	108%	170	41%	1,624	1,173	38%
HSD	622	550	13%	802	-22%	3,747	3,322	13%
MOGAS	673	643	5%	693	-3%	4,110	3,814	8%
HOBC	26	6	376%	16	64%	88	32	175%
JP	27	52	-47%	29	-5%	144	318	-55%
KERO	5	6	-26%	4	24%	33	47	-30%
LDO	1	1	-29%	1	-7%	6	9	-31%
Total	1,595	1,373	16%	1,716	-7%	9,753	8,715	12%
PSO								
FO	105	43	146%	54	93%	816	646	26%
HSD	297	243	22%	390	-24%	1,796	1,507	19%
MOGAS	284	248	15%	283	1%	1,721	1,518	13%
HOBC	7	2	198%	5	25%	28	11	150%
JP	26	51	-50%	28	-7%	134	315	-57%
KERO	2	4	-47%	2	28%	12	34	-63%
LDO	1	1	3%	1	-24%	3	4	-9%
Total	721	592	22%	762	-5%	4,510	4,034	12%
APL								
FO	26	32	-19%	38	-32%	306	212	44%
HSD	46	58	-22%	51	-10%	266	344	-23%
MOGAS	52	59	-12%	50	3%	302	344	-12%
HOBC	1	0	335%	1	10%	6	2	228%
JP	1	1	-8%	0	64%	2	3	-32%
KERO	2	2	20%	2	21%	17	10	70%
LDO	0	0	NM	0	NM	2	3	-45%
Total	127	151	-16%	142	-11%	901	918	-2%
HASCOL								
FO	0	3	NM	0	NM	2	35	-94%
HSD	28	43	-36%	50	-45%	208	238	-13%
MOGAS	42	52	-19%	43	-1%	269	249	8%
HOBC	3	0	NM	0	NM	4	2	102%
Total	73	99	-26%	94	-22%	483	524	-8%
SHEL								
HSD	54	41	32%	62	-14%	289	261	11%
MOGAS	71	59	22%	70	2%	427	438	-2%
HOBC	5	2	189%	4	27%	16	10	60%
Total	131	101	30%	137	-4%	739	709	4%
Total	108	108	0%	152	-29%	720	602	20%

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

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 and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10Yr PIB) plus risk premium.

Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.

New Rating Definitions

Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net