

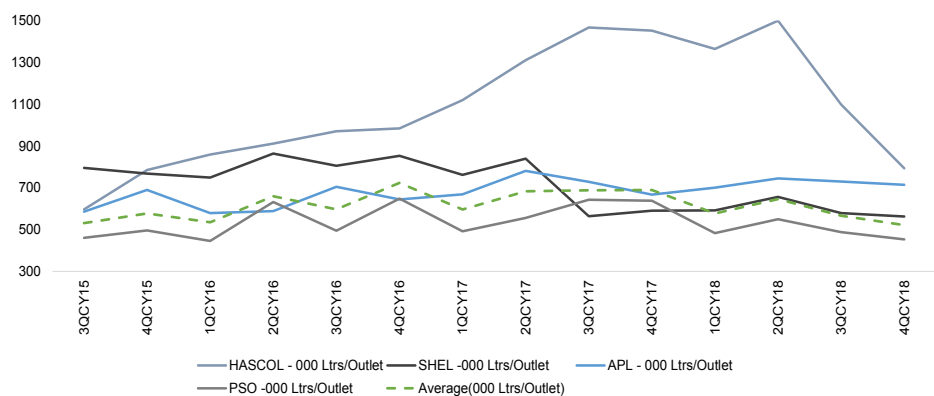
PAKISTAN OMCs

Retail taking the center stage

- The outgoing month's OCAC numbers round up 5MFY19 where retail fuels growth (HSD sourced for transport, HOBC & MS) remained the only avenue for volumetric growth, as power based FO demand falters
- Collating retail outlet numbers with transport sourced retail fuels during 4QCY18, we highlight an average throughput of 521K ltrs/outlet, where HASCOL/APL/SHEL/PSO maintained 763K/714K/562K/453K ltrs/outlet of throughput through their retail networks across the country
- In 4QCY18 on a QoQ basis, HASCOL/APL/PSO added 29/10/15 outlets, while HASCOL/APL/PSO throughputs shift -45%/+7%/-29%YoY signifying the mean reversion of throughputs, as network additions result in lower throughputs.
- HASCOL's throughput is declining rapidly as the company continues to pursue an aggressive strategy while the volumes, hampered by overall economic uncertainty fail to support the company.
- While on the other hand, difference between SHEL's throughput of HSD and MS has increased as the company continues its reliance on its urban-heavy network.

Retail is the name of the game: After introduction of government's policy of shift from FO based power plants to other sources, it is the retail fuels which have become the center of attraction. However, overall economic uncertainty is hampering the sector as MS and HSD volumes changed by 2% and -11%YoY for CY18. Source wise data also confirms our hypothesis where Railways and Roads ate up ~60% of the total volumes of 11.3mn tons for 5MFY19 while transport formed 99.6% and 91.2% of the total volumes of MS and HSD for 5MFY19.

Quarterly retail throughput for listed players



Source: OCAC & AKD Research

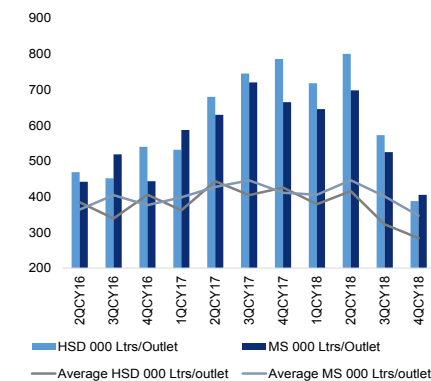
Source-wise MS+HOBC & HSD sales FY16-18

Consumer class	FY16	FY17	FY18	5YR Avg
Total Industry	1%	1%	0%	1%
Agriculture	0%	0%	0%	0%
Total Transport	99%	99%	99%	99%
Total Power	0%	0%	0%	0%
Total Government	0%	0%	0%	0%
Total Overseas /Foreign	0%	0%	0%	0%

HSD Source wise Consumption % of total				
Consumer class	FY16	FY17	FY18	5YR Avg
Total Industry	6%	7%	6%	6%
Agriculture	0%	0%	0%	0%
Total Transport	88%	88%	90%	87%
Total Power	4%	3%	2%	4%
Total Government	2%	2%	2%	2%
Total Overseas /Foreign	0%	0%	0%	0%

Source: OCAC & AKD Research

HASCOL's throughput decreasing rapidly



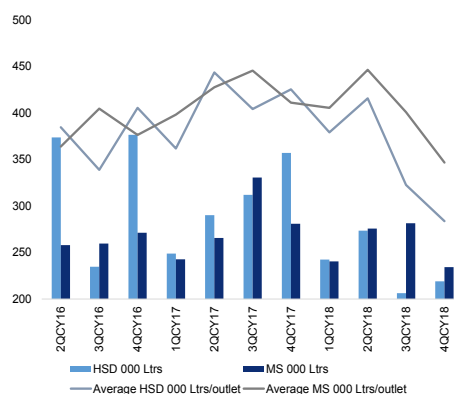
Source: OCAC & AKD Research

Outlet throughput is falling from peaks: During 4QCY18 we earmark HSD (for transport demand using applicable sector source shares), MS & HOBC, revealing an average retail throughput of 521K ltrs/outlet, where HASCOL/APL/SHEL/PSO maintained 793K/714K/562K/453K ltrs/ outlet of throughput through their networks across the country. On a YoY basis, HASCOL/APL/ SHEL/ PSO throughputs moved -45%/+7%/-5%/-29%YoY largely a product of swings in quarterly sales (-36%/+12%/-5%/-28%YoY) and retail network expansion/reduction. On a YoY basis for 3QCY18 HASCOL/APL/PSO/SHEL added 80/30/61/1 outlets over 12 months, signifying continued push on

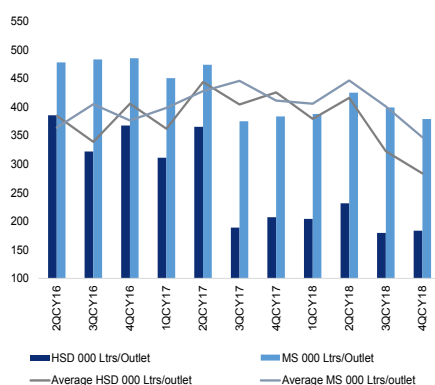


outlet additions. By and large, the continued addition of retail outlets matched with tapering throughput levels highlight mean reversion in the retail space.

PSO is well below industry average



SHEL's lost HSD throughput is far from being reclaimed



Source: OCAC & AKD Research

Outlook: The downturn in the industry volumes is taking a toll on the throughput levels which, we believe, is leading us to a mean reversion level where a significant reduction is being witnessed in throughput of HASCOL as the company aggressively expands its footprint (increase of 80 outlets in CY18 vs. a 6% decline in retail fuel sales). Moving forward, HASCOL is expected to continue its aggressive strategy implying that every additional outlet would have lower throughput i.e. depleting marginal increase in sales per outlet. Moreover, we may be witnessing a persistent slowdown in HASCOL's sales growth, where planned additions to storage could suffer from lower capacity utilization, slowing profitability. We believe this phenomenon is exacerbated by the OMC's reliance on the southern market, where sale grey or adulterated fuel (particularly HSD) is widespread. We also highlight that the difference between SHEL's HSD and MS throughput has increased to 198k ltrs/outlet in CY18 from 153k ltrs/outlet in CY17, signifying the company's continued reliance on urban-heavy presence, and a clear indicator of them coming 'back into the ring' following 2017 Bahawalpur incident.

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Buy	> 19% expected total return (Rf: 13% + Rp: 6%)
Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

Old Rating Definitions (Discontinued)

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
Not Rated	No investment opinion or recommendation

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