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OMC's

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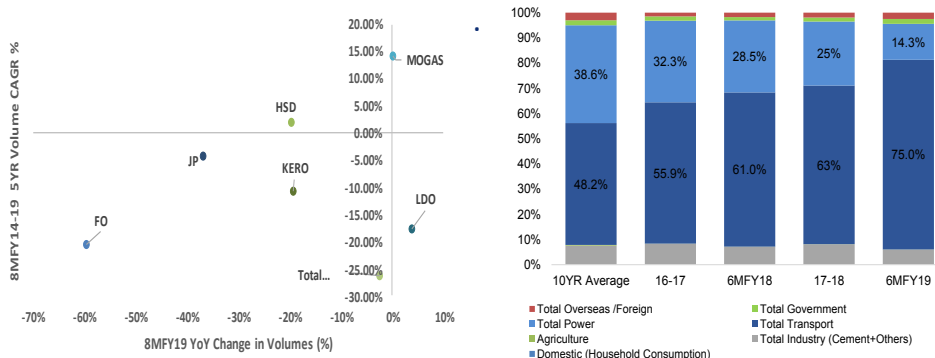
Retail fuels make a muted comeback

- February volumetric offtake clocked in at 1.43mn tonnes, moving -1%MoM/-2%YoY with FO sales continuing to crater (-52%MoM/-31%YoY), while MOGAS/HSD offtake shifted +2/+9%MoM and +16/-1%YoY.
- Cumulative 8MFY19 volumes amounted to 12.1mn tonnes, receding 26%YoY exhausted by weak power demand (cumulative FO sales dip 60%YoY), where monthly average sales have dipped to 247K tons vs. (610K tons during 8MFY18), amidst which non-FO sales have also suffered (slipping 12%YoY ex-FO) highlighting continued down cycle for demand.
- In terms of market share, PSO/APL/HASOL stood at market shares of 40/9/10% during Jan'19 where a comparison to 8MFY19 cumulative shares of 40/11/12% reveal HASCOL and APL losing their market share during the outgoing month.
- The decline in FO looks set to take a reverse in the near term as peak power demand during summer would render generation from FO based plants however, retail fuels are expected to continue with more-of-the-same on the back of muted economic activity.
- With major shifts underway, we advocate for building positions in the state OMC, standing to gain from circular debt clearance and near term inroads into the refining space, pushed for by state level investments.

FO continues to be a drag: Jan'19 OMC sales continued with the ongoing momentum and declined by 2%YoY as ailing furnace oil demand continues to take a toll on the overall volumes, declining by 52/31 MoM/YoY on the back of increased power production from LNG/Hydel while the influx of grey product and muted economic activity due to the ongoing uncertainty and fiscal consolidation has led to a decline in HSD of 1% YoY. MOGAS, however, buckled the trend and increased by 16/2% YoY/MoM. For 8MFY19, the total industry sales stand at 12.1mn tons, down 26% where FO leads the pack with the decline of 60%YoY while HSD sales are down by 20%YoY – highest in last 20 years.

YoY volumes show slowdown in all segments...

...as slowing volumes shift to favor transport



Source: OCAC & AKD Research

HASCOL retained its share: APL's increase in volume of 3%YoY was highest in the pack as company's FO sales remained resilient on the back of the continuous supply to Attock Power Generation. However, company's share in retail fuels decreased to 9% from 10% in Jan'19 as the smaller players continue to creep in to the market, eating up the share of bigger players. HASCOL, after posting dismal performance in 2HCY18, rebounded by posting a market share of 14% in retail fuels for Jan'18 and has successfully protected the share in Feb'19. However, we opine that company might have achieved it by leveraging higher discounts which will hurt profitability.

Ali Asghar Poonawala
ali.poonawala@akdsecurities.net
111-253-111 Ext: 646

Shahrukh Saleem
shahrukh.saleem@akdsecurities.net
111-253-111 Ext: 685

Volume Based Marketshare				
	Feb'19	Feb'18	8MFY19	8MFY18
PSO				
FO	36%	40%	44%	71%
HSD	37%	40%	38%	45%
MOGAS	35%	35%	36%	41%
Total	38%	41%	40%	53%
APL				
FO	18%	8%	15%	7%
HSD	9%	10%	11%	9%
MOGAS	9%	10%	10%	8%
Total	10%	9%	11%	8%
HASCOL				
FO	18%	9%	16%	8%
HSD	16%	12%	13%	14%
MOGAS	12%	10%	10%	13%
Total	14%	10%	12%	11%
SHEL				
HSD	8%	7%	7%	7%
MOGAS	13%	13%	12%	12%
HOBC	30%	27%	29%	26%
JP	0%	11%	3%	6%
KERO	0%	0%	0%	2%
Total	9%	7%	8%	6%

Source: OCAC & AKD Research



AKD Securities Limited

On the other hand, PSO remains the major casualty of the decline in furnace oil volumes as the company's volumes declined 9%YoY in Feb'19 where the decline in furnace oil stood at 38%YoY.

Outlook: The overall economic climate will continue to drag the POL sales where the continued shift of power mix away from FO towards LNG/Coal will take the lead. However, sequential increase in FO volumes in near term can be witnessed as we enter into summer – high electricity demand period. For HSD, the high local prices will continue to encourage influx of grey product into the local market where even if oil prices come down, government's fiscal needs will hamper full pass-on hence will continue providing incentive for smuggling. Though the major catalyst for the sector is the resolution of circular debt where PSO has already received PkR60bn from the first tranche of PkR200bn. The continued resolution will ease cash flow strains on the company, allowing it to undertake a new leg of investment/CAPEX-led growth, with management inclined to foray (yet again) into the mid-stream space and PRL likely to be the conduit for integration.

OMC Industry Volumetric Snapshot (000 Tonnes)

Industry	Feb'19	Feb'18	YoY	Jan'19	MoM	8MFY19	8MFY18	YoY
FO	171	247	-31%	360	-52%	1,972	4,878	-60%
HSD	584	591	-1%	537	9%	4,811	5,986	-20%
MOGAS	614	527	16%	604	2%	4,857	4,850	0%
HOBC (95RON+)	6	10	-36%	6	-3%	56	87	-35%
JP	45	69	-34%	43	6%	341	540	-37%
KERO	6	10	-41%	7	-14%	61	76	-19%
LDO	2	1	68%	2	28%	12	11	4%
Total	1,429	1,455	-2%	1,441	-1%	12,111	16,429	-26%
PSO								
FO	62	100	-38%	172	-64%	874	3,460	-75%
HSD	217	234	-7%	202	7%	1,825	2,697	-32%
MOGAS	212	186	14%	208	2%	1,756	1,974	-11%
HOBC (95RON+)	2	4	-49%	2	-1%	17	35	-51%
JP	45	64	-30%	42	5%	325	502	-35%
KERO	3	7	-56%	4	-28%	41	52	-20%
LDO	1	1	2%	1	-17%	4	6	-20%
Total	541	596	-9%	560	-3%	4,843	8,727	-45%
APL								
FO	31	30	4%	46	-33%	286	346	-17%
HSD	52	57	-8%	53	-2%	509	524	-3%
MOGAS	55	47	16%	55	0%	469	399	18%
HOBC (95RON+)	0	1	-40%	0	-19%	4	6	-36%
JP	1	1	33%	0	63%	5	4	23%
KERO	2	2	-1%	2	5%	16	18	-10%
LDO	1	0	71%	1	-9%	6	5	22%
Total	143	138	3%	175	-18%	1,294	1,302	-1%
HASCOL								
FO	30	48	-37%	55	-46%	312	392	-20%
HSD	91	94	-3%	84	9%	645	865	-25%
MOGAS	75	68	9%	71	6%	504	621	-19%
HOBC (95RON+)	0	1	-25%	0	3%	6	6	-3%
Total	197	211	-7%	116	70%	1,466	1,883	-22%
SHEL								
HSD	47	47	0%	42	12%	357	390	-9%
MOGAS	79	72	9%	79	-1%	603	588	2%
HOBC (95/97RON)	2	3	-33%	2	-6%	16	23	-28%
JP		5	-100%			11	35	-69%
KERO		0	-100%			0	2	-91%
Total	128	127	1%	122	5%	987	1,039	-5%

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Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

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Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
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Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

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