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Today's Daily

■ OMCs: Soft power sector demand fails to dent 8MFY17 volumes

February volumetric offtake clocked in at 1.74mn tonnes, down 16%MoM/4%YoY mainly from lower FO sales (at 0.54mn tonnes down 30%MoM/23%YoY), while MOGAS/HSD offtake fell 8/6%MoM but climbed 13/9%YoY. Cumulative 8MFY17 volumes amounted to 16.8mn tonnes, rising 14%YoY led by retail fuels (MOGAS/HSD offtake grew 20/15%YoY). While Feb'17 offtake for FO remained muted, 8MFY17 sales rested at 6.3mn tonnes, rising 12%YoY, during a period (7MFY17) where generation on FO rose 4.4%YoY. Industry volumes for all major segments during 8MFY17 continue to outpace 5/10YR CAGRs highlighting the continued impetus for offtake growth from positive macro factors. Citing healthy rebound in market share, we remain upbeat on PSO, with a Dec'17 TP of PkR494, trading at FY17E/18F PE of 8.0/6.5x.

KSE100 - Index

Current 48,992.16
Previous 48,534.23
Chg. 0.94%

Mkt Cap. (PkRbn/US\$bn)

Current 9,715 / 92.67
Previous 9,620 / 91.77
Chg. 0.99%

Daily Turnover (mn)

Current 234.95
Previous 228.60
Chg. 2.8%

Value Traded (PkRmn/US\$mn)

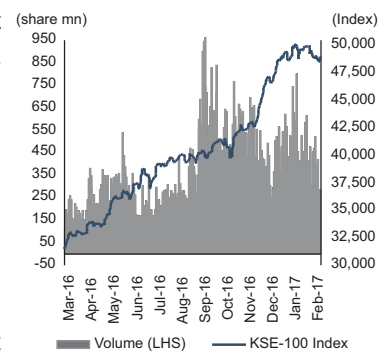
Current 14,339 / 136.78
Previous 10,758 / 102.62
Chg. 33.3%

AKD Daily

Thursday, Mar 02, 2017

News and Views

- The SBP issued PkR387.4bn worth of short-term government papers at the MTB auction held on Wednesday (Mar 01'17) higher than GoP's target of PkR350bn. Participation remained healthy with PkR473bn worth bids received. Cut off yields on 3mth, 6mth, 12mth papers remained stable at 5.9463%, 5.9896% and 5.9935% respectively.
- As per sources, the National Assembly Standing Committee on Finance, Revenue and Privatisation, during a recent meeting, agreed to a proposal of the business community to reduce the withholding income tax rate on raw materials imported by commercial importers to 4% from the current 6.5%.
- The Federal Board of Revenue (FBR) has provisionally collected PkR1.91tn in 8MFY17, up 7%YoY, though missing revenue target by over PkR150bn for the period. In Feb'17, FBR collected PkR222bn, registering a sluggish growth of 3%YoY.



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OMCs: Soft power sector demand fails to dent 8MFY17 volumes

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Volumetric Offtake Snapshot

(000 tons)	8MFY16	YoY	8MFY17	YoY	Feb'17	MoM	YoY	5YR CAGR	10YR CAGR
FO	5,624	-4%	6,276	12%	543	-30%	-23%	3%	3%
HSD	4,765	3%	5,469	15%	608	-6%	9%	4%	2%
MOGAS	3,629	24%	4,359	20%	506	-8%	13%	19%	19%
Others	697	27%	697	0%	79	-16%	-9%	-3%	-4%
APL									
FO	442	-37%	406	-8%	41	-23%	-18%	-1%	0%
HSD	492	0%	508	3%	64	-6%	21%	2%	16%
MOGAS	289	38%	368	27%	42	-6%	10%	25%	37%
Others	26	12%	30	16%	4	-19%	20%	-7%	-11%
PSO									
FO	3,944	2%	4,635	18%	395	-32%	-18%	1%	2%
HSD	2,196	-3%	2,538	16%	269	-2%	9%	1%	-1%
MOGAS	1,545	13%	1,738	12%	193	-7%	11%	14%	18%
Others	410	16%	455	11%	56	-20%	9%	1%	-1%
SHELL									
FO	49	-11%	57	16%	2	-38%	-71%	30%	-2%
HSD	654	-3%	652	0%	70	-1%	-13%	12%	-5%
MOGAS	653	15%	723	11%	80	-10%	4%	33%	13%
Others	158	2%	120	-24%	17	0%	-6%	10%	-7%
HASCOL									
FO	298	-26%	392	32%	32	-41%	-28%	86%	NA
HSD	386	46%	541	40%	65	-19%	36%	134%	NA
MOGAS	253	81%	420	66%	62	1%	71%	159%	NA

Source: OCC & AKD Research

Power sector demand dampens: 8MFY17 demand for FO remained higher by 12%YoY, while HASCOI/SHELL/PSO FO sales increased 32/16/18%YoY. Additionally, the 37% FYTD increase in selling price of FO (currently at PkR49,833/ton) and commensurate increase in the quantum of margins (pegged at 3% of selling price) makes market share growth in this segment crucial for earnings growth. Power sector consumption makes up ~40% of total fuel demand, a number that is expected to decline going



forward (brunt of thermal generation capacity addition is on coal). Although maintaining market share in this segment is easier for PSO, as the state owned OMC has long term fuel supply agreements, the perils of circular debt continues to drag liquidity.

Retail fuels demand remains robust: Industry-wide YoY 8MFY17 MOGAS/HSD offtake continues to outpace 5/10YR CAGRs (see table), where the continuation of this trend is expected as we approach summer months. PSO/APL continued to grow in both segments, recording MOGAS offtake growth of 12/27%YoY and HSD offtake rising 16/3%YoY. Growth in HASCOL's volumes is slowing with MOGAS/HSD offtake for 8MFY17 rising 66/40%YoY, lower than 5YR CAGR of 159/134% owing to the waning out of the low base effect. That said, HASCOL's growth remain the most exciting in the space, where the 416,000 tons of increased volumes sold during the period is the highest in the industry, making up 20% of total industry volume growth. Recently deregulated HOBC demand grew to 47mn tonnes climbing 67%YoY and already surpassing the total offtake for FY16 (41mn tonnes).

Outlook: Industry volumes for all major segments during 8MFY17 continue to outpace 5/10YR CAGRs highlighting the continued impetus for offtake growth from positive macro factors. Citing healthy rebound in market share, we remain upbeat on PSO, with a Dec'17 TP of PkR494, trading at FY17E/18F PE of 8.0/6.5x.

Segmentwise Market Shares

APL	8MFY14	8MFY15	8MFY16	8MFY17	Feb'17
FO	9%	12%	8%	6%	8%
HSD	11%	10%	10%	9%	11%
MOGAS	7%	6%	8%	8%	8%
Others	4%	3%	4%	4%	5%
PSO					
FO	74%	66%	70%	74%	73%
HSD	53%	49%	46%	46%	44%
MOGAS	49%	47%	43%	40%	38%
Others	61%	65%	59%	65%	71%
SHELL					
FO	1%	1%	1%	1%	0%
HSD	7%	15%	14%	12%	11%
MOGAS	10%	19%	18%	17%	16%
Others	13%	28%	23%	17%	21%
HASCOI					
FO	3%	7%	5%	6%	6%
HSD	3%	6%	8%	10%	11%
MOGAS	3%	5%	7%	10%	12%

Source: OCC & AKD Research



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



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