

PAKISTAN OMC's

MARKET VISTA

FO volumes refuse to stay down

- OMC volumes witnessed an increase of 6%YoY for Oct'20 where sporadic FO sales took the lead (up 46%YoY) on the back of increased FO-based power generation (captive and grid), while retail staples, MS/HSD witnessed a meagre increase of 1/3%YoY translating into ex-FO sales remaining flat.
- Overall, local OMC sales have started FY21 on a strong footing, up 9%YoY for 4MFY21 (up 4% excluding FO) where FO again leads the pack with growth of 33%YoY while MS/HSD follow with growth of 6/8% YoY.
- Market shares remain in flux with PSO/APL/HASCOL/SHEL accounting for market shares of 45/10/5/8% during Oct'20 where a comparison with Oct'19 reveals decreasing share of PSO/HASCOL/SHEL by 0.6/2.5/0.7ppts while market share of APL increased by 0.4ppts.
- APL (TP: PkR400.2/sh, 25.2% upside) continues to be the safe stalwart in the sector with high refinery upliftment guarding the company against fluctuating oil prices. PSO's investment case remains pinned to "reading the tea leaves" on circular debt clearance following the Govt's agreement with IPPs (yet to be formalized), where a strong policy response can result in significant price performance.

OMC volumes increased by 6%YoY for Oct'20: OMC volumes continue on the growth trajectory with an increase of 6/11% YoY/MoM, standing at 1.7mn tons for Oct'20. FO led the pack with an increase of 46%YoY driven majorly by demand from power sector as shortage of gas has resulted in power production shifting towards other fuels however declined on sequential basis due to slowdown in power demand. Retail fuels posted a growth of 2.6/22.2% YoY/MoM where HSD continues to outshine with a growth of 3/43% YoY/MoM while MS grew by 1/7% YoY/MoM. After restrictions were eased during 4QFY20, retail fuels witnessed a significant uplift however growth seems to be tapering off which we majorly attribute to influx of grey product which particularly increased after border restriction were eased. To note, high price difference between Iran and Pakistan creates an incentive for smuggling. Though HOBC forms very smart part of total sales mix (1% for 4MFY21), recent decrease in prices has provided a significant boost to the product's sales, increasing by 196%YoY for 4MFY21. For 4MFY21, total OMC sales increased by 9%YoY where FO witnessed the highest increase of 33%YoY followed by 6/8%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 5.8%YoY for Oct'20 against 2.6%YoY of the industry, retail fuel market share has increased to 42.1% for 4MFY21 against 40.8% in 4MFY20. However company seems to be losing share in the FO segment (54% for 4MFY21 vs. 63% in 4MFY20) resulting in overall market share declining to 45% in Oct'20 against 46% in Oct'19. On the other hand, APL continues to be among the laggards with company's retail volumes down by 13.2%YoY which management attributes to lower consumption of HSD by power plants however we believe new entrants eating up the share is also playing a part. However, FO saved the day with an increase of 100%YoY for Oct'20, leading overall increase in sales for Oct'20 to 5%YoY. HASCOL continues to face the brunt of financial woes as volumes witness a decline of 29%YoY where the injury was more pronounced in HSD (down 35%YoY) owing to influx of grey product in our opinion. Moreover, unlisted players have clawed back significant share on YoY basis with market share for Oct'20 standing at 34.7% against 31.2% in Oct'19.

Outlook: OMC volumes improving with an impressive growth of 9%YoY for 4MFY21 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 6/2%YoY for FY21F). An upside of increased restrictions can be strict border controls which can contain the influx of grey, boosting HSD sales. APL (TP: PkR400.2/sh, 25.2% upside) continues to be safe play

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Volume Based Marketshare

PSO	Oct'20	Oct'19	4MFY21	4MFY20
FO	54.5%	62.7%	54.1%	56.4%
HSD	45.4%	43.9%	47.7%	45.3%
MOGAS	39.0%	37.9%	42.1%	40.6%
Total	45.2%	45.7%	47.0%	46.9%
APL				
FO	21.8%	15.9%	20.0%	16.8%
HSD	7.4%	8.9%	7.3%	10.3%
MOGAS	7.6%	8.9%	7.3%	8.9%
Total	10.0%	9.6%	9.8%	10.4%
HASCOL				
HSD	5.8%	9.2%	5.6%	6.7%
MOGAS	6.8%	9.0%	6.7%	5.7%
Total	5.1%	7.6%	4.9%	5.4%
SHEL				
HSD	7.9%	8.1%	7.4%	8.4%
MOGAS	10.7%	11.8%	10.4%	12.3%
Total	7.7%	8.4%	7.3%	8.5%
GO				
HSD	9.7%	8.6%	8.5%	7.5%
MOGAS	10.6%	9.8%	9.3%	8.9%
Total	8.2%	7.6%	7.2%	7.2%

Source: OCAC & AKD Research



from the sector with high refinery upliftment guarding the company against fluctuating oil prices while PSO's improved balance sheet is a significant positive for the company where circular debt clearance being one of the pre-requirements of Govt's agreement with IPPs, a strong policy response can result in significant price performance. We also highlight delay in margin revision where every month of delay in margin revision decreases our FY21 EPS by 1.8/1.5% for APL/PSO.

OMC Industry Volumetric Snapshot (000 Tonnes)

Industry	Oct'20	Oct'19	YoY	Sep'20	MoM	4MFY21	4MFY20	YoY
FO	291	200	45.6%	374	-22.2%	1,214	914	32.9%
HSD	669	650	3.0%	469	42.6%	2,322	2,150	8.0%
MOGAS	687	681	0.8%	642	7.0%	2,744	2,592	5.8%
HOBC	16	5	196.1%	11	40.8%	46	21	118.5%
JP	32	55	-41.4%	19	64.4%	88	202	-56.5%
KERO	4	10	-55.8%	8	-46.4%	25	34	-27.9%
LDO	0	1	-58.5%	1	-48.4%	4	6	-25.2%
Total	1,699	1,601	6.1%	1,525	11.4%	6,442	5,919	8.8%
PSO								
FO	158	125	26.5%	199	-20.3%	657	516	27.3%
HSD	304	285	6.5%	216	40.5%	1,109	975	13.7%
MOGAS	268	258	3.7%	259	3.3%	1,154	1,052	9.7%
HOBC	6	2	189.7%	3	97.4%	16	7	128.2%
JP	30	54	-44.6%	18	67.7%	81	200	-59.4%
KERO	2	7	-77.8%	3	-49.3%	9	25	-66.3%
LDO	0	0	-16.5%	0	-5.2%	2	2	-12.4%
Total	767	732	4.8%	698	9.9%	3,027	2,778	9.0%
APL								
FO	63	32	100.1%	76	-16.9%	243	154	57.6%
HSD	50	58	-13.8%	38	31.2%	169	222	-23.6%
MOGAS	52	61	-13.8%	48	9.2%	200	231	-13.4%
HOBC	1	0	218.8%	1	-0.2%	3	1	169.5%
JP	1	1	4.8%	0	138.3%	1	2	-35.6%
KERO	2	2	8.2%	4	-51.6%	14	6	111.9%
LDO	0	1	-100.0%	0	-100.0%	2	2	-21.7%
Total	169	153	10.2%	168	0.7%	632	618	2.2%
HASCOL								
FO	0	0	NM	0	NM	2	27	-91.9%
HSD	39	60	-34.8%	26	51.9%	130	144	-10.1%
MOGAS	47	61	-23.4%	39	19.4%	183	149	22.8%
HOBC	0	0	35.0%	0	3.1%	1	1	-43.2%
Total	86	121	-28.9%	65	32.1%	316	322	-1.8%
SHEL								
HSD	53	52	1.0%	34	55.5%	173	180	-4.2%
MOGAS	73	80	-8.6%	70	4.5%	285	318	-10.2%
HOBC	3	2	118.2%	2	68.3%	7	6	11.2%
Total	131	134	-2.3%	108	21.8%	470	504	-6.7%
GOPL								
HSD	65	56	16.6%	31	36.9%	198	161	23.3%
MOGAS	73	67	9.0%	55	13.2%	256	231	10.8%
HOBC	2	0	NM	2	65.7%	7	0	NM
Total	140	122	14.0%	88	6.4%	461	392	17.6%

Source: OCAC & AKD Research

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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