

# MARKET VISTA

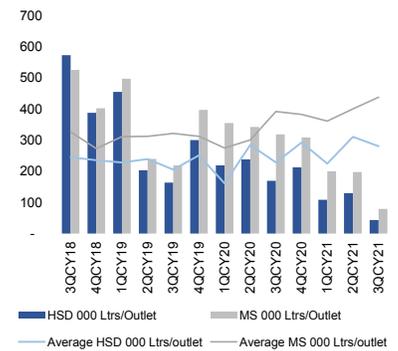
## PAKISTAN OMCs

### Retail fuels continue to remain strong!

- Increase in volumes directly lifted throughput levels, with 3QCY21 retail volumes at 4.5mn tons, up 20%YoY largely due to a 27%YoY increase in HSD while sequential decline in retail fuels' volume stood at 1%.
- Company-wise, HASCOL/SHEL/APL/PSO delivered throughput levels of 122k/703k/590k/740k ltrs/outlet for the quarter, moving -75%/+26%/+27%/+24%YoY and -63%/+2%/+11%/+4%QoQ taking total average industry throughput +14%YoY/+1.3% QoQ to 707k ltrs/outlet.
- Difference between throughput level of MS and HSD increased significantly to 158k ltrs/outlet against 89k ltr/outlet for 2QCY21 which we attribute to seasonality leading to lower consumption of HSD on QoQ basis while on YoY basis, difference between throughputs of fuels has decreased.
- Moving forward, with overall competitive landscape improving and phasing out of furnace oil, retail fuels will continue to be the mainstay of the sector while competition from private players also intensifies.

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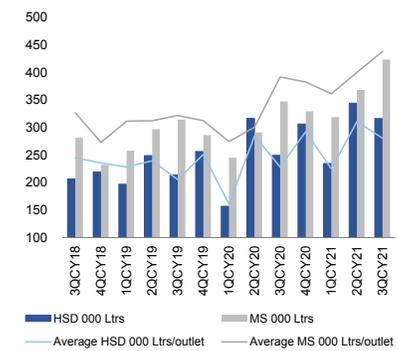
HASCOL's throughput continues to remain depressed



Source: OCAC & AKD Research

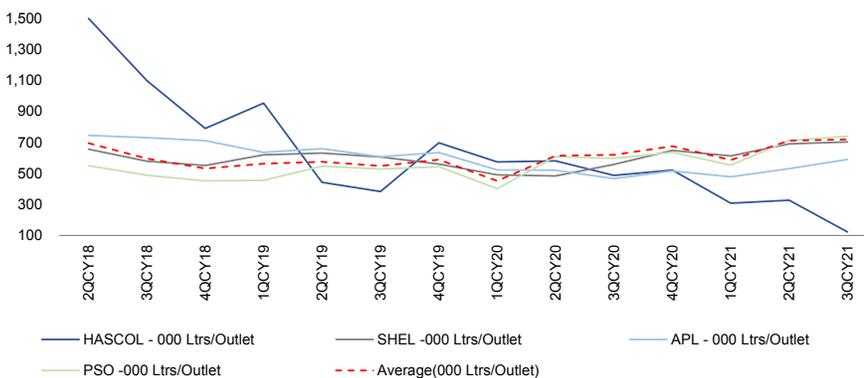
**Listed players losing market share:** Despite improving economic activity, increased power generation on FO due to gas shortage has slightly reduced share of retail fuels in overall volume mix with retail fuel share standing at 77% for 3QCY21 against 86% for 3QCY20. Share of transport sector in HSD volumes stands at 92% for 3QCY21 as HSD's use in power generation increased owing to gas shortage however post winter, as gas availability improves, we expect share of transport sector to increase. MS continues to be dominated by road segment, contributing ~99% of total sales. Listed players have lost market share to unlisted players in retail fuel segment with share of listed companies standing 66% for 3QCY21 against 68% for 3QCY20 where HASCOL witnessed largest contraction as company's retail fuel market share declined to 1% for 3QCY21 against 6% for 2QCY20.

PSO recovering lost share



Source: OCAC & AKD Research

Quarterly retail throughput for listed players



Source: OCAC & AKD Research

**Throughput levels increase by 16%YoY for 3QCY21:** Confluence of low base, improving economic activity and government's continued drive against influx of grey product has resulted in throughput levels of listed OMCs increasing by 14%YoY to 707k tons while on QoQ basis, throughput increased by 1.3%. On YoY basis, HSD witnessed greater increase of 17.7%YoY where we believe government restricting influx of grey product due to better border controls has a major part to play, along with improvement in economic recovery while on the other hand, MS throughput increased by 12/10% YoY/QoQ. On sequential basis, seasonality took a toll on HSD in

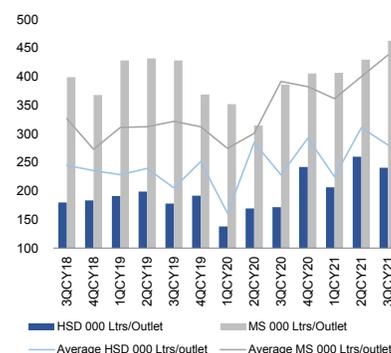


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our opinion with throughout of the fuel declining by 10%QoQ. Company-wise, HASCOL/SHEL/APL/PSO delivered throughput levels of 122k/703k/590k/740k ltrs/outlet for the quarter, moving -75%/+26%/+27%/+24%YoY and -63%/+2%/+11%/+4%QoQ taking total average industry throughput +14%YoY/+1.3%QoQ to 707k ltrs/outlet. Financial constraints continue to grapple HASCOL with company's throughput decreasing by 75%YoY while SHEL outperformed listed peers with a growth of 26%YoY. In terms of retail expansions, APL/SHEL /PSO added 8/4/4 outlets during 3QCY21 while retail outlets of HASCOL remained flat at 623.

**Outlook:** Difference between throughput level of MS and HSD increased significantly to 158k ltrs/outlet against 89k ltr/outlet for 2QCY21 which we attribute to seasonality leading to lower consumption of HSD on QoQ basis while on YoY basis, difference between throughputs of fuels has decreased. On the other hand, we expect HOBC sales to pick up as the difference between price of MS and HOBC decreases, resulting in consumers switching towards better fuel grades. Difference between throughput levels of HSD and MS also sheds light on strategies adopted by different players where SHEL's strategy of mainly focusing on urban centers has resulted in highest difference of 222k ltrs/pump (highest among listed players) while difference for PSO stands at 107k ltrs/pump, highlighting company's widespread retail network. Moving forward, with overall competitive landscape improving and phasing out of furnace oil, retail fuels will continue to be the mainstay of the sector as competition from private players also intensifies. Moreover, as fuel prices continue to increase and government takes measures to curb inflation and worsening CAD, an economic slowdown can induce a slowdown in growth of retail fuels as well, opening up possibilities of consolidation in the sector.

**SHEL's throughput level**



Source: OCAC & AKD Research

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

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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%)



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