

PAKISTAN
OMC'S

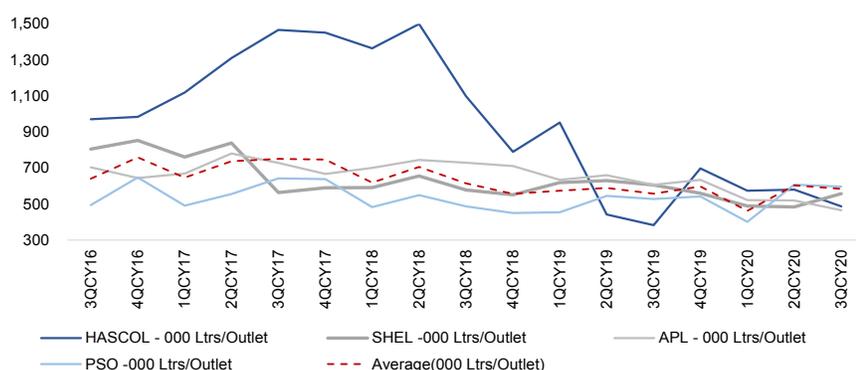
REP-019
**MARKET
VISTA**

Grey product weighs heavily on throughput

- Increase in volumes directly lifted throughput levels, with 3QCY20 retail volumes at 3.7mn tons, up 3.5%YoY largely due to a 10%YoY increase in HSD, however, sequential decline in retail fuels' volume stood at 1.5% as influx of grey product affected HSD sales.
- Company-wise, HASCOL / SHEL / APL / PSO delivered throughput levels of 487k / 558k / 466k / 597k ltrs/outlet, moving +16.0%/+15.2%/-10.2%/-1.8%QoQ and +27.3%/-8.0%/-23.1%/+13.0%YoY taking total average industry throughput -3.2%QoQ/+4.8% YoY to 585k ltrs/outlet.
- The effect of grey product appears more pronounced in sectoral breakup of sales where HSD sales from road segment stood at 89% in 3QCY20 against average at 91-92% previously. MS continues to be dominated by road segment, contributing ~99% of total sales.
- APL (TP: Pkr400.2/sh, 26.2% 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.

Retail fuels taking a hit: Confluence of increasing power generation on FO due to gas shortage and influx of grey product has dented share of retail fuels in overall volume mix with retail fuel share standing at 79% for 3QCY20 against average 88% for first two quarter of CY20. The effect is more pronounced in sectoral breakup of sales where HSD sales from road segment stand at 89% for 3QCY20 against average at 91-92% previously while MS continues to be dominated by road segment, contributing ~99% of total sales. In the backdrop of fluctuating oil prices, listed players have lost share to unlisted players where APL witnessing largest contraction with company's retail fuel market share declining to 7.2% for 3QCY20 against 9.5% for 3QCY19 due to lower power production on HSD.

Quarterly retail throughput for listed players

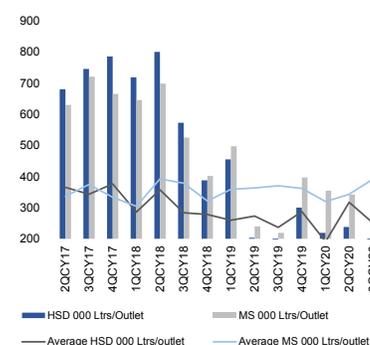


Source: OCAC & AKD Research

Throughput for 3QCY20 moved by +4.8%/-3.2 YoY/QoQ: After easing of COVID-19 related measures lifted throughput levels during 2QCY20, easing of border restrictions has resulted in influx of grey product into the market and consequently per pump throughput for 3QCY20 stands at 585k ltrs against 604k ltrs for 2QCY20, moving +4.8/-3.2% YoY/QoQ. Even though throughput of MS increased by 5.8/14.1% QoQ/YoY to 392k tons as economic recovery continues after a setback due to COVID-19, HSD remained most affected from grey product with throughput declining by 21%QoQ to 251k tons. Company-wise, HASCOL/SHEL/APL/ PSO delivered throughput levels of 487k/558k/466k/597k ltrs/outlet. HASCOL posted the highest growth

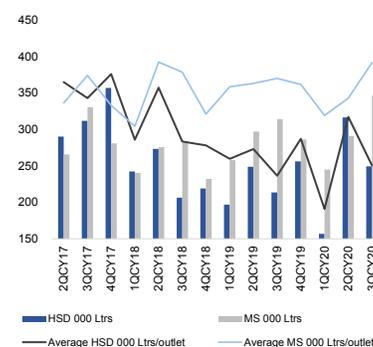
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HASCOL's throughput increases due to low base



Source: OCAC & AKD Research

PSO recovers lost share



Source: OCAC & AKD Research



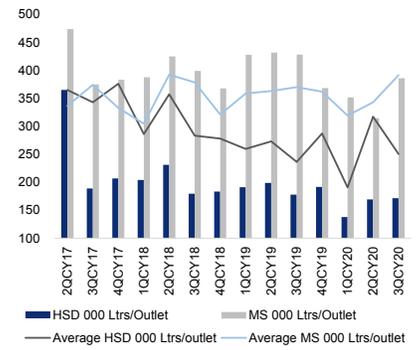
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of 27%YoY on the back of low base while APL remained on the other end of the spectrum with a decline in throughput of 23%YoY. In terms of retail expansions, APL/PSO/SHEL/HASCOL added 15/5/13/29 outlets during 3QCY20.

Outlook: While on one hand, easing of COVID-19 related restrictions imparted a positive impact on MS with recovery in economic activity resulting in increased MS throughput, easing of border restrictions has significantly hampered sales of HSD resulting in lower throughput. Consequently, difference between throughput levels of MS and HSD has increased significantly to 141k ltrs per pump against 134/26k ltrs/pump in 3QCY19/2QCY20. Moving forward, we expect the trend to continue as government's efforts to curb the influx will take time to materialize while increasing oil prices resulting in high price difference will continue to provide incentive for smuggling.

Moreover, high difference between throughput levels of MS and HSD in an environment of contrasting trends reveals different strategies of listed players. SHEL's strategy of mainly focusing on urban centers has resulted in highest difference of 215k ltrs/pump in throughput levels while PSO's throughput was higher for HSD compared to MS for 2QCY20 however for 3QCY20 the situation reversed, highlighting company's significant exposure to areas facing high influx of grey product. Moving forward, we expect additions to remain muted as economic activity will take time to return to normalcy making pump additions less feasible. Though, battle of market share is expected to remain strong among local players with discounts being the major weapon, players are also increasing focus on non-fuel retail and loyalty programs/fuel cards. Moreover, with phasing out of FO, retail has become the lifeline of OMCs thus making it ever-more-important to remain competitive in the landscape.

SHEL suffers a setback



Source: OCAC & AKD Research

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