

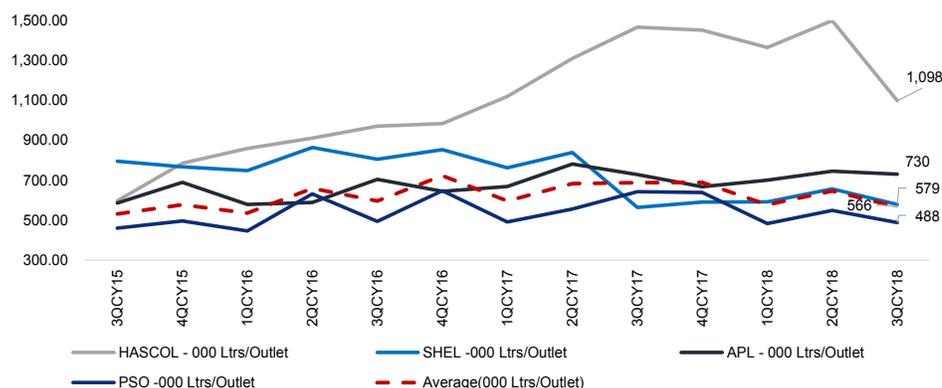
PAKISTAN OMCs

3QCY18 Retail update and the race for growth

- The outgoing month's OCAC numbers round up 3QCY18 where retail fuels growth (HSD sourced for transport, HOBC & MS) remained the only avenue for volumetric growth, as power based FO demand falters
- Collating retail outlet numbers with transport sourced retail fuels during 3QCY18, we highlight an average throughput of 566k ltrs/outlet, where HASCOL/APL/SHEL/PSO maintained 1,098K/730K/579K/488K ltrs/outlet of throughput through their retail networks across the country
- In 3QCY18 on a YoY basis, HASCOL/APL/PSO added 45/29/54 outlets, while HASCOL/APL/PSO throughputs shift -25%/+0%/-24%YoY signifying the mean reversion of throughputs, as network additions result in lower throughputs.
- During 3QCY18, HSD/MS prices climbed 1.2%/0.95%QoQ and 37.7/29.8%YoY crossing the perceived high price benchmark of PkR100/90ltr for HSD/MS marginally suppressing discretionary demand growth
- We contrast PSO with the aggressive HASCOL, highlighting the variations in MS and HSD throughput which are meant to imply greater emphasis on fleet sales and direct depot deliveries to corporate consumers, illustrating the significant lead HASCOL enjoys in both retail segments.

3QCY18 numbers show growth is all about retail: 2MFY19 numbers confirm what FY18 source-wise volume data signified, transport demand is the only source of growth for the downstream space. 63% of total POL energy and non-energy fuels used for transport in FY18 (rising to 71.3% for 2MFY19), its highest point ever, recording growth of 7%YoY when overall sales slipped 5% YoY. These numbers signify the prominence of retail fuels growth, while the only other demand base, power generation, falls from favor.

Quarterly retail throughput for listed players show weakness



Source: OCAC & AKD Research

Outlet throughput is falling from peaks: During 3QCY18 we earmark HSD (for transport demand using applicable sector source shares), MS & HOBC, revealing an average retail throughput of 566k ltrs/outlet, where HASCOL/APL/SHEL/PSO maintained 1,098K/730K/579K/488K ltrs/outlet of throughput through their networks across the country. On a YoY basis, HASCOL/APL/SHEL/PSO throughputs moved -25%/+0%/+3%/-24%YoY largely a product of swings in quarterly sales (-18%/+5%/+2%/-23%YoY) and retail network expansion/reduction. On a YoY basis for 3QCY18 HASCOL/APL/PSO added 45/29/54 outlets over 12 months, while SHEL curtailed its out-

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

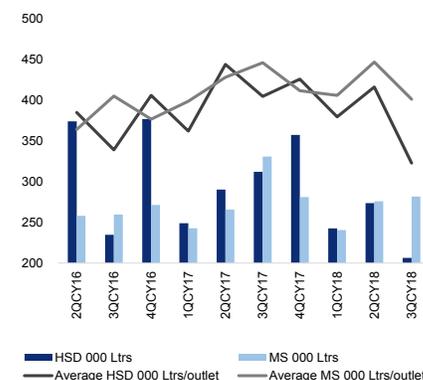
Source-wise MS+HOBC & HSD sales FY16-18

Consumer class	FY16	FY17	FY18	5YR Avg
Total Industry	1%	1%	0%	1%
Agriculture	0%	0%	0%	0%
Total Transport	99%	99%	99%	99%
Total Power	0%	0%	0%	0%
Total Government	0%	0%	0%	0%
Total Overseas /Foreign	0%	0%	0%	0%

HSD Source wise Consumption % of total				
Consumer class	FY16	FY17	FY18	5YR Avg
Total Industry	6%	7%	6%	6%
Agriculture	0%	0%	0%	0%
Total Transport	88%	88%	90%	87%
Total Power	4%	3%	2%	4%
Total Government	2%	2%	2%	2%
Total Overseas /Foreign	0%	0%	0%	0%

Source: OCAC & AKD Research

PSO is well below industry average losing its share of HSD throughput



Source: OCAC & AKD Research

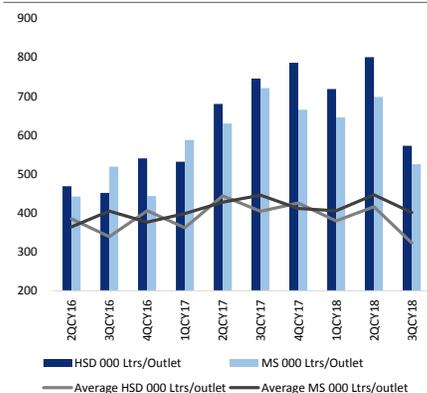


AKD Securities Limited

let count by 2 pumps, signifying continued push on outlet additions. By and large, the continued addition of retail outlets matched with tapering throughput levels highlight mean reversion in the retail space.

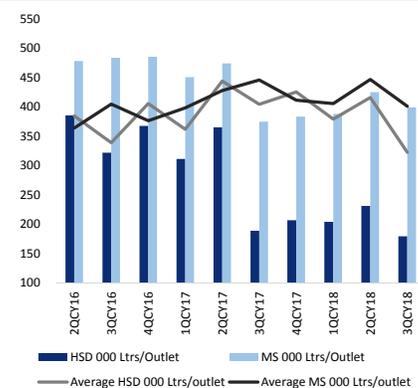
Outlook: As throughput levels come-off their peak levels, we contrast PSO with the aggressive 2nd place HASCOL, bifurcating MS with HSD throughput levels with sector average over the same period. We aim to demark possible variations arising from corporate and fleet sales, particularly for HSD sales (5YR average transport sector sale of 87%). Higher variations between the two are meant to imply greater emphasis on fleet sales and direct depot deliveries to corporate consumers. Comparing PSO with HASCOL, variations in MS and HSD throughput show the significant lead HASCOL enjoys in both retail segments. Lastly, the same analysis for SHEL shows that despite maintaining significant MS throughput advantages, reclaiming significant HSD sale volumes is crucial to be in the running for growth.

HASCOL is well above average, HSD throughput the key trigger



Source: OCAC & AKD Research

SHEL's lost HSD throughput is far from being reclaimed



Source: OCAC & AKD Research

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell (new rating system effective Sep 10'18) with total returns (capital upside + dividend yield) benchmarked against the floating (variable) risk free rate (10yr PIB) plus risk premium.

New Rating Definitions

Buy	> 16% expected total return (Rf: 10% + Rp: 6%)
Neutral	> 10% to < 16% expected total return
Sell	< 10% expected total return (Rf: 10%)

Old Rating Definitions (Discontinued)

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

Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

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

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.