

PAKISTAN



FSL OMC Universe 4QFY21E Profitability Highlights

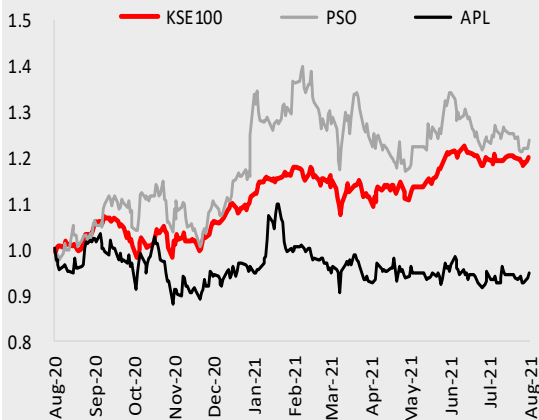
	4QFY21	4QFY20	YoY	QoQ
PSO	10.0	-20.5	na	46%
APL	6.0	1.4	333%	-61%
	FY21	FY20	YoY	
PSO	48.9	-13.8	na	
APL	42.8	10.1	323%	

Dividend Expectation (Rs/sh)

PSO	5.0
APL	10.0

Source: Company accounts, Foundation Research, August 2021

FSL OMC Universe vs KSE100 Index



Source: Bloomberg, Foundation Research, August 2021

Analyst

Foundation Research Research@fs.com.pk
+92 213 5612290 Ext 312

Foundation Securities (Pvt) Ltd
Wednesday, August 11, 2021

Oil Marketing Companies

Profitability to rise in 4QFY21 on economic rebound

Event

▪ Petroleum sector volumetric sales increased by 21/17/108% YoY of MS/HSD/FO during 4QFY21 given (1) low base effect amid COVID related lockdown last year and (2) accelerating economic activities. Coupled with 152% YoY rise in International oil prices in 4QFY21, we expect this would translate into PSO posting EPS of Rs10.0/sh in 4QFY21 as compared to loss in 4QFY20. Whereas, APL profitability would be Rs6.0/sh in 4QFY21, up 333% YoY.

Impact

▪ **Strong growth witnessed given higher volumes and prices:** Petroleum sector has witnessed sharp uptick in sales during 4QFY21 due to (1) low base effect amid COVID related lockdown last year, (2) buoyed demand given accelerating economic activities and (3) increase in International oil prices. Resultantly, volumes of MS/HSD/FO rose by 21/17/108% YoY in 4QFY21. Oil prices rose by ~152% YoY in 4QFY21 which translated into 30/25% YoY increase in MS/HSD retail prices as government reduced Petroleum Levy by 71/59% YoY on MS/HSD.

▪ FSL OMC universe is expected to post profitability of Rs5.3bn in 4QFY21 compared to loss of Rs9.5bn in 4QFY20 amid lockdown last year. However, profitability is expected to decline by 48% sequentially given higher inventory gains last quarter. Nonetheless, universe MS/HSD/FO volumes are expected to increase by 21/8/236% YoY in 4QFY21. Finance cost is expected to decline 43% YoY during 4QFY21 given lower interest rates.

▪ **PSO to outperform:** PSO is expected to post EPS of Rs10.0 in 4QFY21 versus LPS of Rs20.5 in 4QFY20 attributable to higher sales volumes amid accelerating economic activity. Profitability would decline 46% sequentially given higher inventory gains in previous quarter. This would take FY21 profitability to Rs48.9/sh vs LPS of Rs13.8 in FY20. Sales are expected to jump 77% YoY given low base effect and substantial inventory loss incurred in 4QFY20 given COVID related lockdown last year. Volumes of MS/HSD/FO have increased by 85/68/648% YoY in 4QFY21. Gross margins are expected to increase by 6.8ppts YoY to 3.2% in 4QFY21 but down 2.8ppts QoQ given higher inventory gain in previous quarter. Finance cost is projected to decline 40% YoY in 4QFY21 given lower interest rates.

▪ **Attock Petroleum to post EPS of Rs6.0:** APL is expected to record profitability growth of 333% YoY to Rs6.0/sh in 4QFY21 attributable to higher sales volumes. However, profitability would decline by 61% QoQ. FY21 EPS would cumulate to Rs42.8, up 4.2x YoY. Sales are projected to increase 44% YoY in 4QFY21 given higher volumes of MS/HSD/FO, up by 4/11/33% YoY. Gross margins are expected to rise by 0.8ppts YoY to 3.6% in 4QFY21 but fall by 2.8ppts sequentially given higher inventory gain in previous quarter.

Outlook

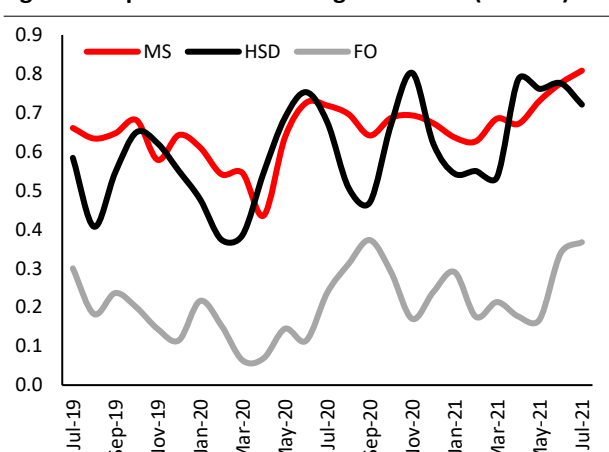
▪ We have an outperform stance on the sector due to (1) accelerating economic growth, (2) boom in construction sector and (3) resolution of circular debt given renegotiation of IPP agreements which would improve cashflow situation of PSO. Our top picks in the sector are PSO and APL.

Fig 1: OMC sector financial highlights 4QFY21E

Rs (000)	4QFY21E	4QFY20	YoY	QoQ	FY21	FY20	YoY
Net sales	440,930	255,788	72%	33%	1,429,590	1,309,436	9%
COGS	426,515	262,748	62%	37%	1,369,769	1,293,571	6%
Gross profit	14,414	-6,959	na	-28%	59,821	15,865	277%
Operating Expenses	6,317	5,002	26%	20%	23,275	18,259	27%
Financial charges	1,783	2,839	-37%	64%	4,409	12,793	-66%
Other Income	1,551	2,168	-28%	21%	8,054	11,556	-30%
PBT	7,866	-12,633	na	-47%	40,192	-3,631	na
PAT	5,304	-9,474	na	-48%	27,210	-5,457	na
GM	3.3%	-2.7%			4.2%	1.2%	
NM	1.2%	-3.7%			1.9%	-0.4%	

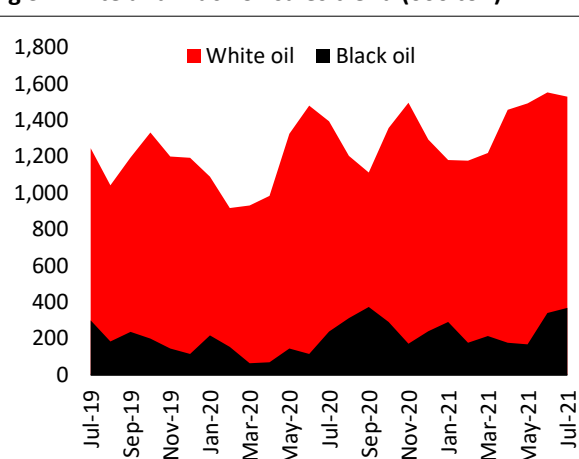
Source: Company Accounts, Foundation Securities, August 2021

Fig 2: Multiple factors affecting OMC sales (mn ton)



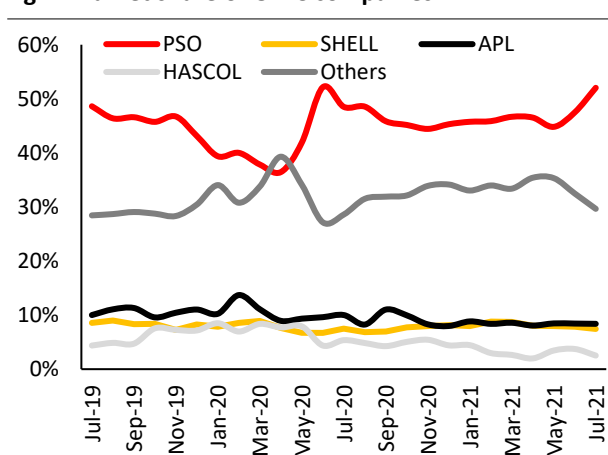
Source: OCAC, FSL Research, August 2021

Fig 3: White and Black oil sales trend (000 ton)



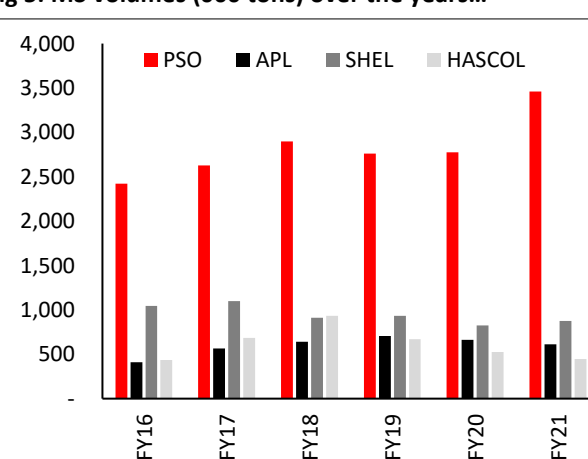
Source: OCAC, FSL Research, August 2021

Fig 4: Market share of OMC companies



Source: OCAC, FSL Research, August 2021

Fig 5: MS volumes (000 tons) over the years...



Source: OCAC, FSL Research, August 2021

Acronyms

MS	Motor Spirit (also known as gasoline or petrol)
HSD	High Speed Diesel
FO	Furnace Oil
CNG	Compressed Natural Gas
YoY	Year-on-year
MoM	Month-on-Month
OMC	Oil Marketing Companies

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.