

PAKISTAN



July 2022: Pakistan's Oil Sales
Sales (000 tons)

	IND	PSO	APL	SHEL	HASCOL
MS	594	259	51	63	15
HSD	444	233	48	33	6
FO	350	224	41	-	-
Others	53	44	3	4	0
Total	1,442	760	142	100	21

Source: OCAC, Foundation Research, Aug 2022

YoY Growth

	IND	PSO	APL	SHEL	HASCOL
MS	-27%	-33%	-19%	-24%	81%
HSD	-38%	-31%	-17%	-38%	-28%
FO	-5%	-12%	4%	N/A	N/A
Others	28%	52%	-19%	-42%	-18%
Total	-26%	-25%	-13%	-30%	-56%

Source: OCAC, Foundation Research, Aug 2022

Market share

	PSO	APL	SHEL	HASCOL
MS	44%	9%	11%	3%
HSD	52%	11%	8%	1%
FO	64%	12%	0%	0%
Others	83%	5%	7%	0%
Total	53%	10%	7%	1%

Source: OCAC, Foundation Research, Aug 2022

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
 +92 213 5612290 Ext 331

Foundation Securities (Pvt) Ltd
 Tuesday, August 2, 2022

Oil Marketing Companies

Sharp decline in sales as economic slowdown begins to bite

Event

Domestic petroleum products sales declined sharply by 26% on YoY and MoM basis in Jul'22 due to (1) elevated prices of MS and HSD, (2) slowdown in domestic economic activity and (3) heavy monsoon rains resulting in lower HSD consumption in agriculture. Decline of 27/38/5% YoY was recorded in MS/HSD/FO sales during Jul'22. Company wise analysis reveals that PSO/APL/SHEL sales declined by 25/13/30% YoY during the month of July.

Impact

White oil volumes showed marked decline: Domestic petroleum sales (ex-non Energy) declined by 26% YoY (↓ 26% MoM) in Jul'22. Product-wise analysis reveals that during Jul'22, volumetric slowdown was seen in MS/HSD/FO of 27/38/5% YoY due to (1) sustained high MS/HSD retail prices, (2) slowdown in domestic economic activity and (3) heavy monsoon rains resulting in lower HSD consumption in agriculture. Average prices of MS and HSD during Jul'22 remained elevated at Rs239/liter and Rs239/liter respectively as Gov't imposed Petroleum Levy and fully removed subsidy.

In black oil segment, FO sales fell to 350KT, down by 5% YoY (↓ 23% MoM) depicting lower offtake by power generation. However, we believe that FO sales would be elevated due to shortage of LNG and improved cash position of FO based IPPs as Gov't has released 2nd installment of receivables to 2002 based IPP's.

PSO sales down by 25% in Jul'22: In Jul'22, sales volume of PSO clocked in at 760KT depicting a decrease of 25% YoY. MS/HSD sales were down by 33/31% YoY due to increase in prices and slowdown in economic activity. Whereas, sales were down 27% MoM given drop of 18% in MS and 38% in HSD. Thus, PSO's market share for MS/FO decreased by 4/5ppts YoY to 44%/64% in Jul'22. However, market share for HSD increased by 5ppts YoY to 52%.

APL restricted decline to 13%: APL recorded an overall decline of 13% YoY (↓29% MoM) during Jul'22 as its petroleum sales were 142KT. Product wise analysis reveals that MS/HSD decreased by 19/17% YoY. Whereas, FO sales inclined by 4% YoY. Moreover, APL's market share in MS/HSD/FO increased by 0.8/2.8/1.0ppt YoY to stand at 9/11/12% in Jul'22.

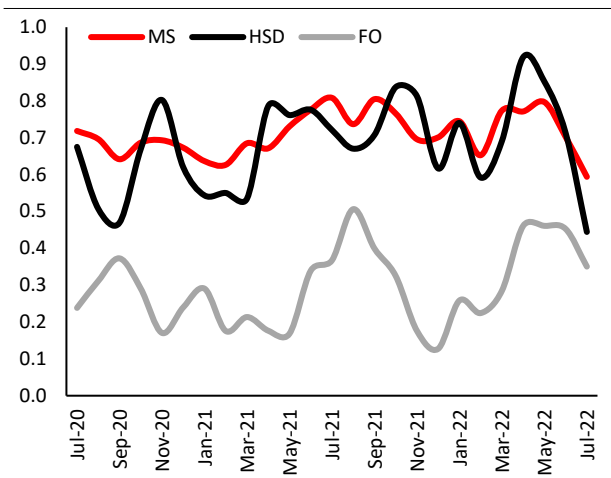
SHEL market share remained intact: During Jul'22, SHEL's volumes clocked in at 100KT, down by 30/34% YoY/MoM. MS/HSD sales declined by 24/38% YoY. Whereas, Shell market share of MS/HSD remained intact at 11/8%.

HASCOL remained in the doldrums: HASCOL sales plunged 56% YoY in Jul'22 with volume of 21k tons. Whereas, sales inclined by 4% MoM. Its market share dropped by 1ppt to 1% in Jul'22.

Outlook

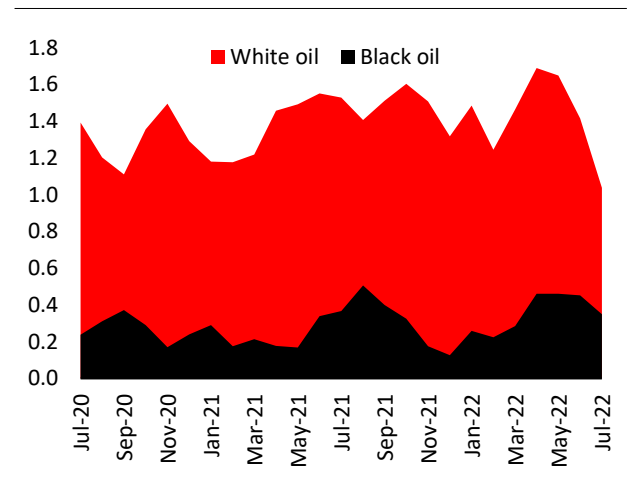
We have an outperform stance on the sector due to expected improvement in cashflow situation of PSO amid (1) likely increase in gas prices and (2) expected resolution of circular debt given implementation of Weighted Average Cost of Gas. Whereas, we expect that moderation of petroleum products demand would persist given elevated oil prices amid Ukraine-Russia war.

Fig 1: Slump gathered pace in Jul'22 (mn ton)



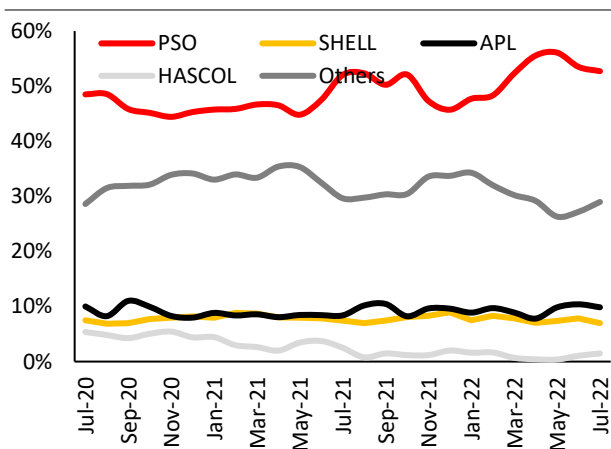
Source: OCAC, Foundation Research, Aug 2022

Fig 2: White oil showed marked decline (mn ton)



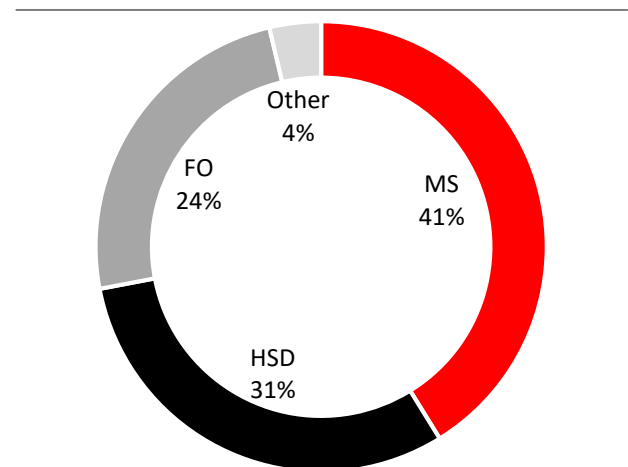
Source: OCAC, Foundation Research, Aug 2022

Fig 3: PSO dominating market share...



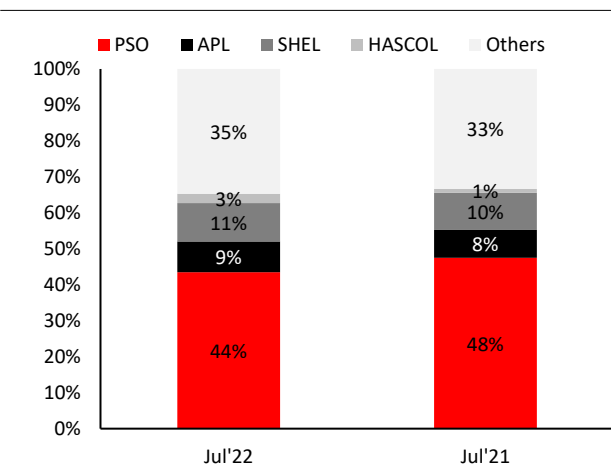
Source: OCAC, Foundation Research, Aug 2022

Fig 4: Product wise breakdown during Jul'22...



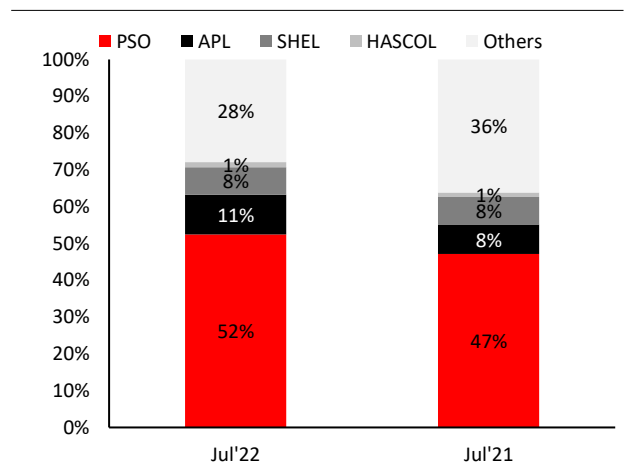
Source: OCAC, Foundation Research, Aug 2022

Fig 5: PSO share in MS ↓ 4ppts YoY in Jul'22



Source: OCAC, FSL Research, Aug 2022

Fig 6: PSO share in HSD ↑ 5ppts YoY in Jul'22



Source: OCAC, Foundation Research, Aug 2022

Acronyms

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

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.