

PAKISTAN


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

	IND	PSO	APL	SHEL	HASCOL
MS	673	288	53	69	19
HSD	669	423	52	44	5
FO	136	40	25	-	-
Others	67	58	3	2	0
Total	1,545	810	133	114	24

Source: OCAC, Foundation Research, Dec 2022

YoY Growth

	IND	PSO	APL	SHEL	HASCOL
MS	-3%	0%	-13%	-2%	19%
HSD	-18%	8%	-32%	-34%	7%
FO	-22%	-60%	-11%	N/A	N/A
Others	-2%	17%	-8%	-79%	-81%
Total	-12%	-2%	-21%	-21%	16%

Source: OCAC, Foundation Research, Dec 2022

Market share

	PSO	APL	SHEL	HASCOL
MS	43%	8%	10%	3%
HSD	63%	8%	7%	1%
FO	29%	19%	0%	0%
Others	88%	5%	3%	0%
Total	52%	9%	7%	2%

Source: OCAC, Foundation Research, Dec 2022

Analyst

Zeeshan Azhar zeeshan@fs.com.pk

+92 213 5612290 Ext 331

Foundation Securities (Pvt) Ltd

Friday, December 2, 2022

Oil Marketing Companies

Sales continue on declining path as economic slowdown bites

Event

▪ In a continuation of the downward trend witnessed since Jul'22, domestic petroleum products sales declined by 12% on YoY basis (down by 7% MoM) to 1.5mn tons in Nov'22 due to (1) elevated prices of MS and HSD and (2) slowdown in domestic demand and economic activity amid high interest rates and record floods. Resultantly, sales declined by 20% YoY during 5MFY23.

Impact

▪ **Volumes maintain downward trajectory:** Domestic petroleum sales (ex-non Energy) declined by 12% YoY (down by 7% MoM) in Nov'22. Product-wise analysis reveals that during Nov'22, volumetric slowdown was seen in MS/HSD of 3/18% YoY (down by 1/6% MoM) due to (1) sustained high MS/HSD retail prices and (2) slowdown in domestic demand and economic activity amid high interest rates and record floods. Average prices of MS and HSD during Nov'22 remained elevated at Rs225/liter and Rs235/liter respectively as Gov't increased the Petroleum Levy rate to Rs50.0/12.6 on MS/HSD.

▪ In black oil segment, FO sales fell to 136KT, down by 22% YoY (↓ 33% MoM) depicting lower offtake by power producers given lower demand amid onset of winters. However, we believe that FO sales would be elevated due to shortage of LNG and improved cash position of FO based IPPs.

▪ **Govt has also increased OMC margins:** Govt has increased the OMC margin on MS/HSD by 9/36% to Rs4/5/ltr from Dec'1, 2022 against ECC approval to increase it to Rs6/ltr when cushion in pricing permits. Annualized impact of revision in OMC margins on PSO/APL profitability is Rs10.9/6.7/sh.

▪ **Pace of decline slowed in PSO:** In Nov'22, sales volume of PSO clocked in at 810KT depicting a decrease of 2% YoY. MS/HSD sales were flat/up by 8% YoY amid surprising reversal of trend. Whereas, FO sales were down 60% YoY. Sequentially, sales were down 5% given 64% decline in FO whereas MS/HSD remained flat/up by 7%. Thus, PSO's market share for MS/HSD increased by 2/15ppts YoY to 43/63% in Nov'22. However, market share for FO declined by 28ppts YoY to 29%.

▪ **APL tumbled:** APL recorded an overall decline of 21% YoY (↓4% MoM) during Nov'22 as its petroleum sales were 133KT. Product wise analysis reveals that MS/HSD/FO decreased by 13/32/11% YoY. Moreover, APL's market share in MS/HSD fell by 1/2ppts YoY to stand at 8/8% in Nov'22. Whereas, FO rose 2ppts YoY to 19%.

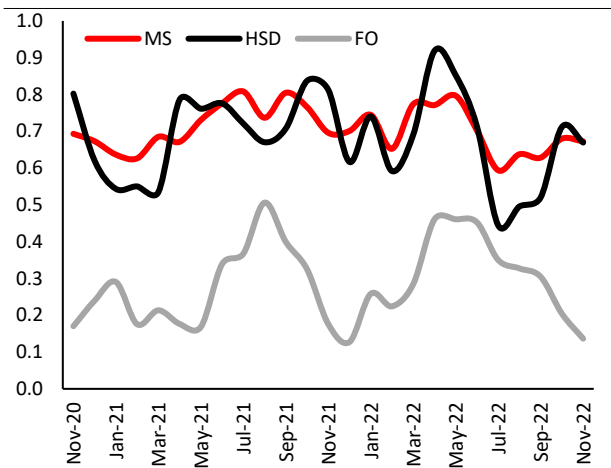
▪ **SHEL declined:** During Nov'22, SHEL's volumes clocked in at 114KT, down by 21% YoY (down 11% MoM). MS/HSD sales declined by 2/34% YoY. Shell market share of MS remained intact YoY at 10% and HSD fell 2% YoY to 7%.

▪ **HASCOL outshone:** HASCOL sales showed upsurge of 16% YoY (down 30% MoM) in Nov'22 with volume of 24k tons amid 19% YoY growth in MS and 7% YoY incline in HSD sales. Its market share remained flat YoY at 2% in Nov'22.

Outlook

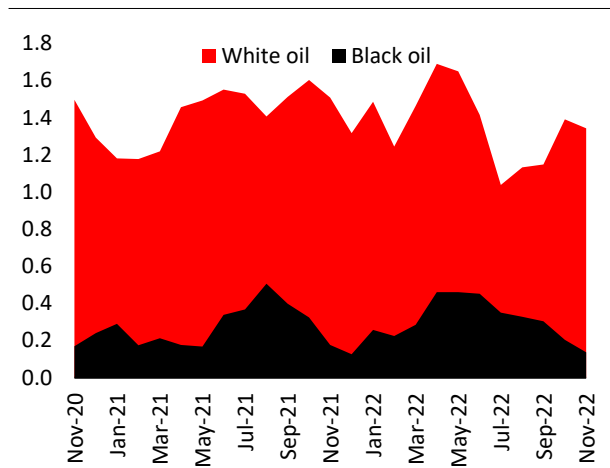
▪ We expect decline in petroleum products demand during FY23 given record floods, high interest rates and elevated oil prices amid Ukraine-Russia war. However, we have an outperform stance on the sector due to expected improvement in cashflows of PSO amid (1) likely increase in gas prices, (2) higher OMC margins and (3) expected resolution of circular debt given implementation of Weighted Average Cost of Gas.

Fig 1: MS/HSD sales ↓ MoM during Nov'22 (mn ton)



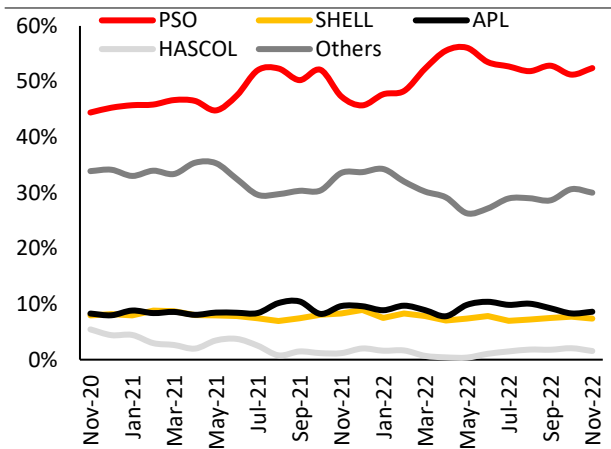
Source: OCAC, Foundation Research, Dec 2022

Fig 2: White oil dominates with 91% share (mn ton)



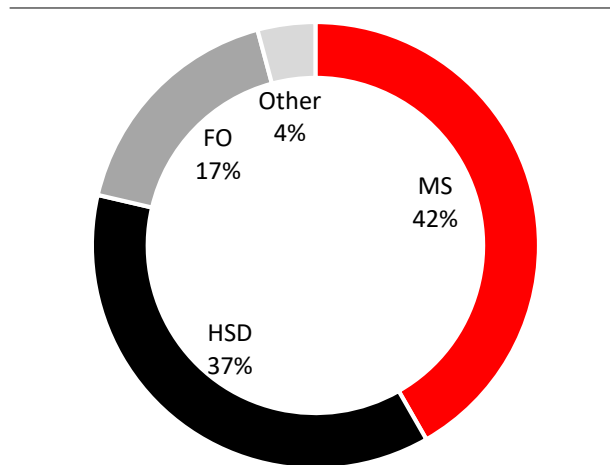
Source: OCAC, Foundation Research, Dec 2022

Fig 3: PSO dominating market share...



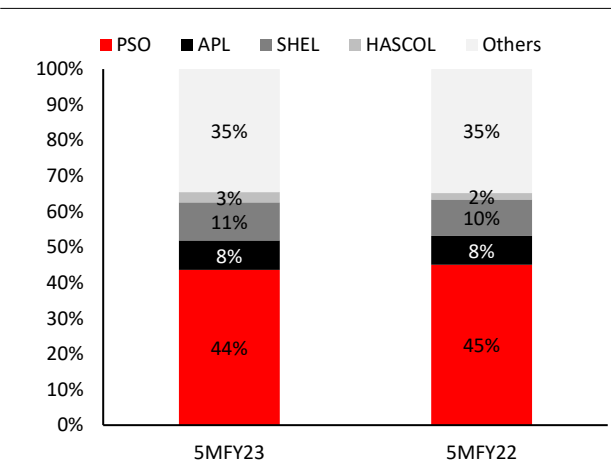
Source: OCAC, Foundation Research, Dec 2022

Fig 4: Product wise breakdown during 5MFY23...



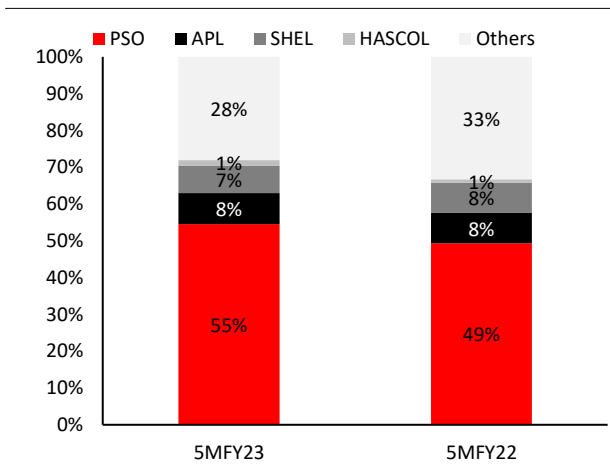
Source: OCAC, Foundation Research, Dec 2022

Fig 5: PSO share in MS ↓ 1ppts YoY in 5MFY23



Source: OCAC, FSL Research, Dec 2022

Fig 6: PSO share in HSD ↑ 6ppts YoY in 5MFY23



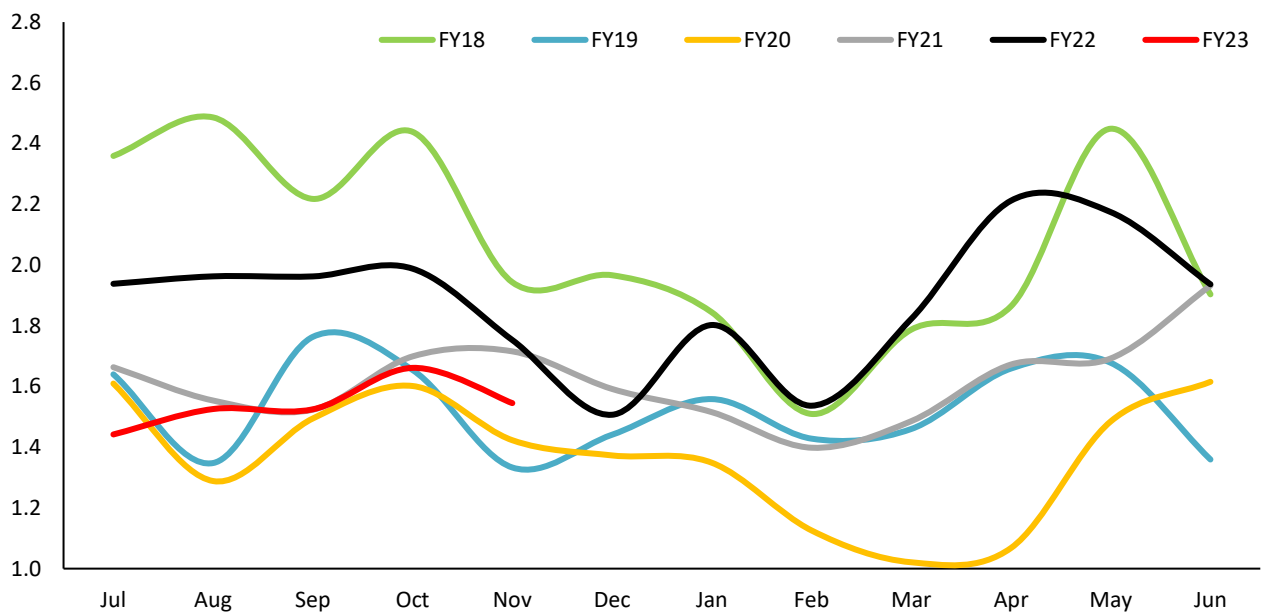
Source: OCAC, Foundation Research, Dec 2022

Table 1: 5MFY23 Pakistan's Oil Sales

	Sales (000 tons)					YoY					Market share			
	IND	PSO	SHEL	APL	HAS	IND	PSO	SHEL	APL	HAS	PSO	SHEL	APL	HAS
MS	3,213	1,400	344	266	93	-16%	-18%	-13%	-13%	37%	44%	11%	8%	3%
HSD	2,841	1,550	212	239	42	-24%	-16%	-31%	-23%	17%	55%	7%	8%	1%
FO	1,323	798	-	179	-	-25%	-29%	N/A	-33%	-100%	60%	0%	14%	0%
Others	322	271	12	24	0	19%	35%	-62%	42%	-58%	84%	4%	7%	0%
Total	7,699	4,018	568	708	135	-20%	-18%	-22%	-21%	-2%	52%	7%	9%	2%

Source: OCAC, Foundation Research, Dec 2022

Fig 7: Marked seasonality observed in OMC sales volumes



Source: OCAC, Foundation Research, December 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.