

## Pakistan OMCs

### Aramco entry to improve OMC landscape

Aramco, one of the biggest corporation, strategically places a strong focus on the downstream sector, exemplifying its commitment to growth and diversification. Previously, they have acquired Valvoline Inc.'s global products business for US\$2.65bn to propel their lubricant division and made inroads into the South American fuel retail market through the acquisition of Esmax. They have recently inked a deal to acquire a 40% equity stake in Gas and Oil Petroleum Limited (GO). Furthermore, Aramco is currently in consultation with the GoP to build US\$8-10bn greenfield refinery. These initiatives underline Aramco's commitment to expanding its presence in the downstream sector, strengthening its brand, and enhancing its overall footprint.

This marks a substantial milestone as major oil giants are re-entering into Pakistan. Earlier, Wafi Energy, a rapidly expanding retail gas station network and the sole licensee of the Shell retail network in Saudi Arabia, acquired SHEL. Similarly, Chevron, another multinational giant, has made a comeback to Pakistan through a trademark license agreement with Be Energy Limited. In our view, these developments are a direct outcome of the government's structural reforms, as highlighted in [our previous report](#). The government is actively striving to attract FDI into the sector which will eventually drive the valuation of the sector.

#### Brief Introduction of GO

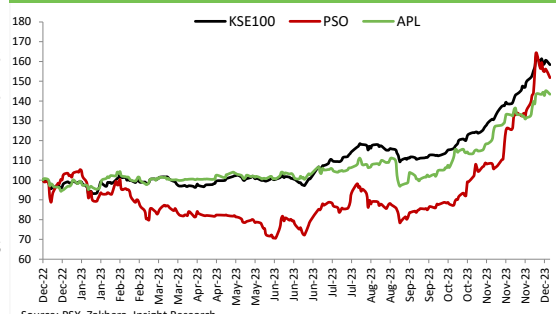
GO stands as the second-largest OMC in terms of retail stations, boasting over 1,021 at the end of FY22. It holds the distinction of being the largest OMC in the private sector, with a substantial storage capacity of ~200KMT. In 5MFY24, company's retail market share stands at 3.9%, compared to its peak market share of 9.3% in FY21. Furthermore, as per CY22 accounts, the company carries a debt of PKR40bn, maintaining an average D/A ratio of 41% (CY19-22).

GO has OMC infrastructure in place to augment its sales, which is why we believe Aramco has entered the space via GO. With huge retail network of ~1,100 retails store, Aramco can sell their lubricant products and these retail stations will provide a good base to the company.

#### A look at Aramco's recent acquisitions

In 2023, Aramco acquired Valvoline Inc's global products business to expedite their international lubricants growth strategy, capitalizing on the synergies provided by their global base oils production and R&D capabilities. As per our back of the envelope working, this transaction was done at P/S & P/B ratio of ~1.0x & 2.9x, respectively. In addition to the Valvoline acquisition, Aramco also secured 10% stake in Rongsheng Petrochemical Company (China) for RMB24.6bn (US\$3.6bn), translating into P/S & P/B ratio of ~0.9x & 2.5x, respectively. To highlight, Aramco has also acquired South American's downstream company named Esmax.

Insight OMC vs. KSE100 Index



#### OMC sector

| Company | Price | Target Price | P/S  | P/E  | P/B  |
|---------|-------|--------------|------|------|------|
| PSO*    | 200   | 296          | 0.03 | 3.39 | 0.39 |
| APL*    | 399   | 497          | 0.10 | 4.40 | 1.00 |
| SHEL    | 162   | NR           | 0.08 | 9.89 | 1.65 |
| HASCOL  | 9     | NR           | 0.06 | NM   | NM   |
| HTL     | 30    | NR           | 0.27 | NM   | 1.13 |

Source: Company Account, Insight research

PSO & APL based on forward basis

#### Retail Market Share of OMCs

| Company | FY19  | FY20  | FY21  | FY22  | FY23  | 5MFY24 |
|---------|-------|-------|-------|-------|-------|--------|
| PSO     | 38.5% | 42.7% | 44.5% | 47.9% | 48.9% | 50.6%  |
| APL     | 10.0% | 9.2%  | 7.3%  | 8.3%  | 8.5%  | 9.1%   |
| SHEL    | 10.2% | 9.4%  | 9.5%  | 9.7%  | 9.0%  | 8.0%   |
| GO      | 7.9%  | 9.1%  | 9.3%  | 8.9%  | 7.0%  | 3.9%   |
| HASCOL  | 10.3% | 7.2%  | 4.9%  | 1.3%  | 3.0%  | 3.1%   |

Source: OCAC, Insight Research

#### Aramco related acquisitions in 2023

| Company                                  | Main Product Line         | P/S | P/E  | P/B |
|--|---------------------------|-----|------|-----|
| Valvoline Inc's global products business | Lubricant                 | 1.0 | 9.0  | 2.9 |
| Rongsheng                                | Petrochemical             | 0.9 | 38.6 | 2.5 |
| Esmax                                    | Fuel & Lubricant Retailer |     |      |     |

Source: Aramco Website, News reports, Company Accounts ,Insight research

## The Deal could re-rate OMC sector

We expect recent M&A activities will push towards re-rating of the sector and these inflows will ensure long term stability of the sector. With the actual amount not disclosed, we have conducted a sensitivity analysis of GO valuation. In listed space, PSO and APL currently trade at a cheap P/B of 0.4x and 1.0x, respectively. This suggests that despite their recent performance in the current bull run, there is still room for growth. To highlight, APL and PSO have yielded return of 35% and 42% FYTD, respectively. Historically, we have observed that FDI tends to drive the sector towards higher valuations, and this trend may hold true in the current scenario as well.

To note, Vitol Dubai Limited, a global energy and commodity trading company, has entered into Share Purchase Agreement (SPA) to acquire 15% shareholding of Hascol Petroleum Limited (HASCOL) in Apr'16. After the completion of transaction, OMC sector provided a return of 28% in next 6 months against 17% return of KSE-100 index in the same period.

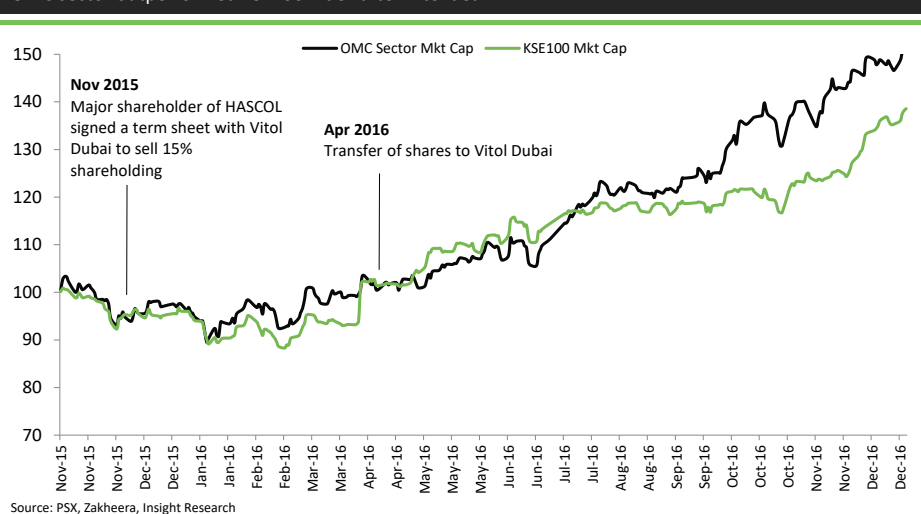
### Sensitivity of GO valuation

| Valuation | P/S  | P/E   | P/B  |
|-----------|------|-------|------|
| \$50      | 0.04 | 7.97  | 0.92 |
| \$100     | 0.09 | 15.94 | 1.84 |
| \$150     | 0.13 | 23.91 | 2.76 |
| \$200     | 0.18 | 31.88 | 3.67 |
| \$225     | 0.20 | 35.86 | 4.13 |

Source: Pacra, Insight research

\*Based on CY22 financials

### OMC sector outperformed KSE100 index after Vitol deal



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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

### Frequently Used Acronyms

|             |                           |             |                         |             |                               |
|-------------|---------------------------|-------------|-------------------------|-------------|-------------------------------|
| <b>TP</b>   | Target Price              | <b>DCF</b>  | Discounted Cash Flows   | <b>FCF</b>  | Free Cash Flows               |
| <b>FCFE</b> | Free Cash Flows to Equity | <b>FCFF</b> | Free Cash Flows to Firm | <b>DDM</b>  | Dividend Discount Model       |
| <b>SOTP</b> | Sum of the Parts          | <b>P/E</b>  | Price to Earnings ratio | <b>P/Bv</b> | Price to Book ratio           |
| <b>P/S</b>  | Price to Sales            | <b>EVA</b>  | Economic Valued Added   | <b>BVPS</b> | Book Value per Share          |
| <b>EPS</b>  | Earnings per Share        | <b>DPS</b>  | Dividend per Share      | <b>DY</b>   | Dividend Yield                |
| <b>ROE</b>  | Return on Equity          | <b>ROA</b>  | Return on Assets        | <b>CAGR</b> | Compounded Annual Growth Rate |

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