

February 04, 2010

**Pakistan Market****APL: 1HFY10 EPS expected at Rs26.3, up 3%YoY****MORNING BRIEFING**

KSE100 Index: Closing 9627.63 ↑ (+32.39)

Attock Petroleum Limited (APL) is expected to post earnings of Rs26.3 per share in 1HFY10, compared to Rs25.5 per share in the corresponding period last year, in its board meeting scheduled on Feb 09, 2010. The expected 3%YoY earnings growth is primarily on the back of high diesel sales (up 79%YoY) achieved during the period. Moreover, the company is expected to post an EPS of Rs13.6 in 2QFY10, up 14%YoY and 6%QoQ. We also expect an interim cash dividend payout of Rs8-10 per share. Trading at FY10E and FY11F PE of 6.4x and 6.1x, respectively, we reiterate our 'Buy' stance on the scrip.

**Revenue growth on higher diesel sales**

With APL posting 79% growth in diesel sales during the 1HFY10, net sales are expected to rise to Rs38.0bn compared to Rs33.1bn in the same period last year, up 15%YoY. As a result, the company has improved its market share to 5.3% from 5.1%. Hence, gross profit is expected to arrive at Rs1.7bn, though a higher proportion of diesel will reduce gross margins to 4.4% (1HFY09: 4.9%).

**Other Income to remain stable**

Other Income (operating and income from bank deposits and short-term investments) is expected to remain stable at Rs830mn – up 1%YoY - because of sustained bank balances and short term investments. On the other hand, operating expenses are expected to rise by 12%YoY, as APL looks to expand its distribution network. Consequently, APL is expected to post earnings of Rs1.51bn (EPS Rs26.3) in 1HFY10 as against profits of Rs1.47bn (EPS Rs25.5) in the corresponding period last year, up 3%YoY.

**Margins to falter QoQ due to fixed diesel margins**

Given the rising share of diesel in APL's product mix (49.6% in 2QFY10 versus 40.8% in 1QFY10), a fixed Rs1.35 per liter margin is likely to hit overall margins in this quarter. From 4.6% in 1QFY10, gross margins are expected to arrive at 4.3% this time around. However, with higher revenues as a

result of volumetric growth (31%QoQ), earnings are expected to rise by 6%QoQ to Rs781mn (EPS of Rs13.6)

**Table: APL 1HFY10 earnings estimates**

Rsmn	1HFY10	1HFY09	Δ%
Net Sales	38,031	33,056	15%
Cost of products sold	36,342	31,438	16%
Gross Profit	1,689	1,618	4%
Gross margin	4.4%	4.9%	
Other operating income	387	446	-13%
Operating expenses	311	278	12%
Operating profit	1,764	1,786	-1%
Income on deposits & invest.	443	378	17%
Profit before tax	2,104	2,023	4%
Taxation	590	555	6%
Profit after tax	1,514	1,468	3%
Earnings per share	26.3	25.5	3%

Source: JS Research and company accounts

**Recommendation: 'Buy' maintained**

Given a diversified product portfolio and a minimal impact of oil price volatility (lower inventory levels), we reiterate our liking for APL at current levels. The scrip is trading at a FY10E and a FY11F PE of 6.4x and 6.1x respectively, with a FY10E dividend yield of 7.9%.

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**Also in focus****Cotton arrivals rise to 12.5mn bales**

According to the latest numbers released by the PCGA, cotton arrivals as of Feb 1, 2010 stood at 12.5mn bales versus 10.8mn bales last year (a growth of 16%YoY). Overall, these figures are in line with our expectations and we believe cotton production for this year is likely to arrive close to 13mn bales, translating into a growth of 15%YoY. This bumper cotton crop would easily negate the impact on GDP of any shortfall in wheat output in FY10.

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