

April 06, 2010

Pakistan Market

Oil consumption up 11%YoY in 9MFY10

MORNING BRIEFING



KSE100 Index: Closing 10447.84 ↑ (+31.32)

atif.zafar@js.com

92 (21) 111-574-111 (ext. 3118)

Also in focus

WTI price at US\$86.5/bbl

International crude price continued its upward momentum as WTI gained US\$1.75 to stand around US\$86.5 per barrel. The rally is led by positive economic data come in, suggesting US economic recovery is gathering pace. We expect local E&P and oil marketing firms to be the direct beneficiary of rising oil prices.

According to the latest numbers released by the OCAC, total oil consumption during the first 9 months of FY10 stood at 14.8mn tons, up 11% from the corresponding period last year. Oil sales during March 2010 stood at 1.8mn tons, up 34%MoM and 4%YoY on the back of robust HSD and petrol sales. With PSO and APL trading at FY11F PE of 5.3x and 6.0x, respectively, we maintain our 'Buy' stance on both.

FO sales fueling oil consumption during 9MFY10

Furnace Oil (FO) sales were up 12%YoY following growing shortage of electricity and rising demand from dual fuel thermal power plants, which have been the primary growth determinant for oil sales during 9MFY10. Petrol and Jet fuel sales too reflected a rising trend, with consumption up 33% and 47%, respectively. Load management at CNG pumps and the reduced price differential between CNG and petrol have been key reasons behind the jump in petrol consumption. As a consequence of subdued economic activity, diesel sales remained under check, with consumption up only 2%YoY to 5.5mn tons. However, Kerosene Oil (SKO) and Light Diesel Oil (LDO) sales were down 11%YoY each.

Oil Product sales (in 000 tons)

	9MFY10				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	5,532	3,157	994	369	2%	-5%	-8%	90%
FO	6,596	5,852	74	290	12%	15%	11%	-15%
Mogas	1,421	659	345	68	33%	27%	33%	103%
SKO	121	74	7	12	-11%	-5%	-56%	-10%
LDO	58	14	-	34	-11%	-31%	NM	-8%
JP	1,091	551	357	48	47%	33%	35%	0%
Total	14,820	10,307	1,776	814	11%	9%	6%	22%

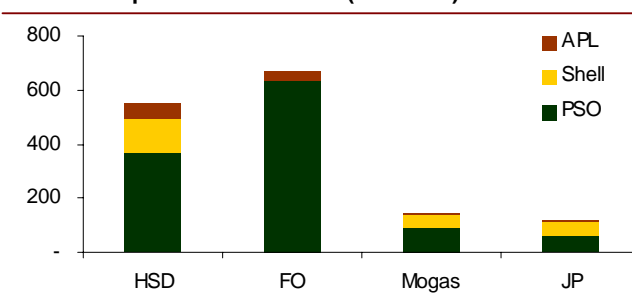
Source: OCAC, * excluding Non-Energy products & local JP8(Defence)

March sales shine – up 34%MoM and 4%YoY

March oil sales, which stood at 1.8mn tons, posted impressive showing in almost all respects. Compared to the preceding month, oil consumption was up 34% as diesel and FO sales

recorded impressive growth of 64%MoM and 11%MoM, respectively. Petrol, SKO and JP sales too were up 54%, 82% and 21%, respectively. On a year on year basis, oil consumption was up 4% in March mainly due to 22% and 43% increase in diesel and petrol sales, respectively. However, with the circular debt taking its toll on the OMCs, FO sales registered a decline of 19%.

Oil consumption in March 2010 ('000 tons)



Source: OCAC

Outlook: PSO our top pick

We expect oil sales to grow by a 4 year (FY10-14) CAGR of 6%, with robust oil consumption to sustain in the coming months owing to commissioning of further rental power plants and IPPs.

PSO will remain the primary beneficiary of the anticipated rise in oil consumption owing to its vast distribution and handling capacity. APL, on the other hand, is expected to enhance its market share in diesel sales on the back of expansion of its distribution network. During 9MFY10, PSO and APL oil sales have jumped 9% and 22%, respectively in response to the aforementioned reasons, while rising international oil prices should help boost margins for the oil marketing companies. Moreover, recent news flow regarding the Rs100bn and Rs60bn Sukuk and TFC issues have slightly alleviated concerns over the long-standing circular debt issue. With PSO and APL trading at FY11F PE of 5.3x and 6.0x, respectively, we maintain our 'Buy' stance on both.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800165

tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005

Fax: +92 (21) 22800163

azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS