January 07, 2010

Pakistan Market

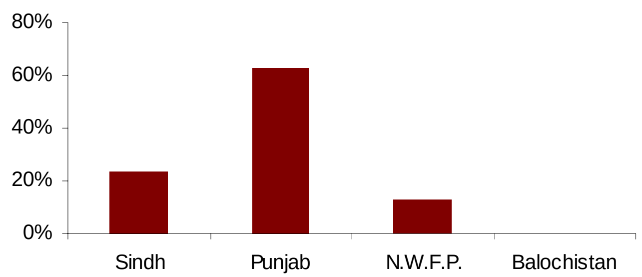
MORNING BRIEFING

CNG load shedding: PSO stands to benefit

KSE100 Index: Closing 9727.36 ↑ (+69.98)

Sui Northern Gas Pipeline Limited (SNGPL) has decided to close down the gas supply to CNG stations in Punjab and NWFP from 6am to 8pm (14 hours) daily, due to a rising demand during the winter season and limited supply. This decision is likely to augur well for oil marketing companies, in particular PSO which enjoys a 48% market share in the Motor Gasoline (MOGAS) segment. According to our analysis, if 60% of CNG consumers in Punjab and NWFP shift to petrol, we can expect 171k tons incremental sales of the product. This in turn is likely to have a per share impact of Rs1.1 on PSO if we assume load shedding to persist only during the winter season (Jan-Mar). Moreover, reduction in the Petrol-CNG parity (effectively down to 43%) due an increase in CNG prices further adds strength to our thesis. We re-iterate PSO as one of the top picks in our universe, trading at a FY10 PE of 6.4x with a target price of Rs380. Further delays in the resolution of the circular debt issue however, remains a key risk to our valuation.

Graph: Provincewise CNG consumption



Source: OCAC

SNGPL to shut down gas supply to CNG stations

A rising demand due to falling mercury and limited supply has compelled upcountry natural gas supplier, SNGPL to limit supply to CNG stations in Punjab and NWFP. This load shedding is to be carried out daily for a total of 14 hours during the peak period i.e. 6am to 8pm. According to news reports, gas shortage has increased to 375mn cubic feet per day (MCFD), with demand exceeding 2,250 MCFD. Though no timeline has been given as to when the load shedding will end, we expect it to continue until March (3 months). Punjab and NWFP constitute approximately 76% of the CNG sales in the country with more than 2,480 CNG stations in operation.

PSO stands to gain – EPS impact of Rs1.1

According to OCAC statistics (FY08), 72bn cubic feet of gas are sold to CNG stations which are equivalent to 1.5mn tons of petrol. Out of which, approximately 76% of the sales - 1.14mn MOGAS equivalent tons - are to stations located in the NWFP and Punjab. We have assume 80% of the consumers get heir gas filled during the peak hours and further, 75% of those switch to petrol out of time convenience, long queues for filling and the reduced price parity between CNG and Petrol. This results in 60% of the daily gas consumption substituted by petrol resulting in an increment of 171k tons in petrol sales (82k tons for PSO). At the current price of Rs65.11, PSO is likely to have a positive impact of Rs1.1 per share if load shedding is carried out only during Jan-Mar. Please find a tabular representation of a sensitivity analysis on the change in consumer buying pattern and its impact on PSO below:

Table: Sensitivity analysis

%age of consumers shifting to Petrol	EPS impact on PSO
90%	1.7
80%	1.5
70%	1.3
60%	1.1
50%	0.9
40%	0.7

Source: JS Research

Recommendation: 'Buy' maintained

With rising demand for furnace oil (up 24%YoY in 1HFY10) from the power generation sector, PSO is expected to bully its way forward, owing to its vast handling and distribution capacity. Furnace oil sales are expected to grow at a 3 year (FY09-12) CAGR of 10%. Moreover, a recent jump in oil prices would mean a higher rupee margin on regulated products and an opportunity to book inventory gains. On the flip side, despite a recent hike in power tariff, inter-corporate debt remains a concern for PSO as its receivables have risen to approximately Rs86bn. Protraction of this issue is a key risk to our valuation. Nonetheless, we remain bullish on PSO which trades at a FY10 PE of 6.4x with a target price of Rs380.

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Also in focus

Tax collection of Rs577bn in 1HFY10

As against the full year target of Rs1380bn for FY10, the total tax collection for 1HFY10 came in at Rs577.3bn, up 4.2% from the corresponding period last year. The growth in taxes is still minimal when compared to the full year targeted growth of 19%, however we believe, the increase in indirect taxes due to higher commodity prices and the approval of VAT will significantly improve tax collection figure in 2HFY10. In the month of December, Rs120bn of taxes were collected, down 3% YoY. According to the FBR Spokesman, the tax collection for December could have risen to Rs130bn had the unfortunate Ashura incident not occurred.

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