

October 07, 2009

Pakistan Market

September oil sales print

MORNING BRIEFING



KSE100 Index: Closing 9643.11 ↑ (+155.16)

Company wise oil sales data for the month of September 2009 has been released by OCAC. According to the data, total oil sales during Jul-Sep 2009 stood at 5.0mn tons, up 12%YoY as compared to 4.5mn tons recorded last year. Out of the 3 listed OMCs, PSO is the only company with positive sales growth of 13% during the period. Trading at FY10E and FY11F PE of 6.9x and 3.9x, PSO remains our top pick in the OMC sector.

Diesel sales down, furnace oil sales up

Diesel (HSD) sales remained depressed in the month of September due to extended Eid holidays. During Jul-Sep 2009, total HSD sales stood at 1.8mn tons, down 7% from 1.9mn tons last year. Despite economic slowdown, demand for FO continued its upward momentum with 2.4mn tons of sales recorded in the period, up 26%YoY. This is due to growing electricity shortage in the country and rising demand from dual gas thermal power plants.

Table 1: Oil Product sales (in 000 tons)

	Jul-Sep 2009				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	1,757	1,012	344	98	-7%	-13%	-11%	36%
FO	2,421	2,156	29	65	26%	31%	-17%	-45%
Mogas	472	207	122	27	38%	26%	17%	-6%
SKO	33	21	2	4	-32%	-26%	-65%	-32%
LDO	17	5	-	9	-26%	-21%	NM	-28%
JP	300	145	79	15	25%	19%	-9%	-33%
Total	4,999	3,546	576	219	12%	13%	-7%	-16%

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

Outlook: 17% oil sales growth expected in FY10

We expect total diesel sales to reach at 7.8mn tons in FY10 compared to 7.6mn tons last year, up 3%YoY. The rationale behind this growth is the gradual economic recovery and fixation of petroleum levy. Last year when oil prices fell sharply, government did not fully pass on the benefit to the consumers, which is why we saw penetration of cheap

smuggled Iranian diesel in the local market which affected OMCs' diesel sales. Now with the fixation of petroleum levy, the relative price difference would be limited.

Moreover, we expect FO demand to remain robust and reach 10.5mn tons, up 30%YoY. Higher furnace oil primarily driven by increasing gas shortage and rising demand from existing and new oil fired power plants. Demand for Petrol (Mogas) remained encouraging at 472k tons (up 38%) during Jul-Sep 2009. The growth is likely to be sustained in FY10 as rising gas shortage would discourage CNG sales in the country especially in the upcoming winter. In addition, price differential of CNG over petrol would decline.

Table 2: Oil Product sales (in 000 tons)

	Jul-Sep 2009				QoQ-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	1,757	1,012	344	98	-20%	-24%	-16%	-3%
FO	2,421	2,156	29	65	10%	14%	140%	-51%
Mogas	472	207	122	27	4%	-4%	14%	48%
SKO	33	21	2	4	-23%	-12%	-50%	-26%
LDO	17	5	-	9	-30%	-37%	NM	-32%
JP	300	145	79	15	6%	-15%	-8%	-30%
Total	4,999	3,546	576	219	-4%	-3%	-7%	-26%

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

PSO: top pick in OMCs

PSO is set to be the primary beneficiary of the expected increase in FO demand mainly on the back of its substantial market share and distribution network. Thus we expect PSO to post average annual volume growth of 9% during next 4-years. Moreover, with the resolution of circular debt, growing FO demand and lower chances of huge inventory losses, we expect PSO to post impressive earnings of Rs48 in FY10. We maintain our 'Buy' stance on PSO which is trading at FY10 and FY11 PE of 6.9x and 3.9x with dividend yield of 8.7% and 12.8%, respectively.

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Also in focus

Govt. planning to launch US\$500mn Eurobond

According to a news report citing finance ministry sources, the government plans to launch international Eurobonds worth US\$500mn in 2010. The Eurobond issue payment is likely to be used to retire the US\$500mn worth Sukuk Bond maturing in 2010.

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