

September 08, 2010

Pakistan Market

Floods drag down oil sales in Aug by 24%YoY

MORNING BRIEFING



KSE100 Index: Closing 9,748.14 ↑ (+42.04)

Oil sales for August 2010 have dipped 24% a piece on a MoM and YoY basis. Decrease in Furnace Oil (FO) and High Speed Diesel (HSD) sales were amongst the chief causes for the overall decline. HSD declined by 37%YoY followed by FO sales which were down 21%YoY. Being the market leader, PSO was affected the most with sales down 29%YoY; whereas APL and SHEL's volumes remained put. APL sales were immune to the floods, as it operates in the Northern Punjab region while SHEL's loss in sales was stemmed due to FO supply initiated to NCPL & NPL. Nevertheless, trading at attractive valuations, we maintain our 'Buy' recommendation on all the three listed OMCs. However, in the case of a prolonged decrease in sales and government's refusal to reduce the turnover tax rate, there remains a downward risk to our earnings estimates.

Oil Product sales (in 000 tons)

	Aug-10				MoM-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	436	223	98	21	-34%	-42%	-18%	-45%
FO	680	554	52	52	-22%	-24%	6%	5%
MS	179	93	39	9	-3%	15%	-9%	3%
HOBC	1	1	0	-	0%	14%	-26%	NM
SKO	13	8	0	2	-18%	-26%	-58%	-19%
LDO	4	1	-	3	-42%	-15%	NM	NM
JP	105	53	42	2	-18%	-19%	-5%	-66%
Total	1,418	932	231	89	-24%	-27%	-10%	-19%

Source: JS Research, * excludes Non-Energy products & local JP8

Aug: Floods hit hard, volumes down 24%YoY

As largely expected, the recent devastating floods in the country kept oil sales depressed during August 2010. FO sales which have been a primary growth determinant in recent times for the industry, witnessed a decline of 21%YoY led by a supply ceasure to power plants following logistical issues caused by the floods. Moreover, with agricultural activity coming to a stand still in those areas, HSD sales fell by 37%YoY. Demand for Motor Gasoline (Mogas), however

remained sticky and in fact witnessed a slight increase of 1%YoY.

2MFY11: PSO loses market share amid floods

Oil sales for 2MFY11 stood at 3.3mn tons, down 8%YoY. PSO sales during this period dipped by 12% to 2.2mn tons mainly due to its larger presence in the flood affected areas compared to growths of 17% and 14% witnessed in the sales of APL and SHEL, respectively. As a result, PSO lost its market share by 322bps to 67.2%, meanwhile APL and SHEL improved their shares to 6.1% (up 130bps) and 14.8% (up 277bps), respectively.

Oil Product sales (in 000 tons)

	2MFY11				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	1,097	609	218	58	-16%	-19%	-13%	-18%
FO	1,551	1,282	100	102	-7%	-13%	474%	77%
MS	363	174	82	18	13%	25%	-1%	-10%
HOBC	2	1	0	-	8%	25%	-15%	NM
SKO	28	18	1	4	28%	37%	-43%	50%
LDO	12	3	-	8	0%	-27%	NM	23%
JP	233	119	86	9	1%	7%	12%	-20%
Total	3,285	2,207	487	200	-8%	-12%	14%	17%

Source: JS Research, * excludes Non-Energy products & local JP8

Outlook: APL & PSO our preferred plays

Trading at attractive valuations, we recommend 'Buy' on the three listed OMCs at a 0.5% turnover tax base case assumption. APL and PSO remain our preferred plays with target prices of Rs421 and Rs390, respectively. We also maintain our 'Buy' call on SHEL with a target price of Rs245. The downside risk to our call emanates from the possibility of government continuing with the 1% turnover tax and the extended fall in sales.

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Also in focus

IMF sets preconditions for remaining tranches

According to news reports, IMF may withhold the 5th tranche for the time being, which was earlier expected to be released upon conclusion of the ongoing IMF review. According to these reports, IMF has made it clear that the release of the remaining US\$2.6bn under the SBA could occur only after the introduction of the reformed GST. Moreover, it insisted that tangible progress on power sector reforms, increased autonomy to the central bank and resolution of circular debt arising from commodity operations are key areas which need to be addressed, before any of the remaining tranches are disbursed. However, an official announcement to declare the conclusion of this meeting is still awaited.

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