

December 09, 2009

Pakistan Market**Oil sales in 5MFY10 – up 16%YoY****MORNING BRIEFING**

KSE100 Index: Closing 8843.96 ↓ (-148.95)

According to the latest numbers released by OCAC, total oil sales during 5M (Jul-Nov) FY10 stood at 8.4mn tons, up 16% from the corresponding period last year. Furnace oil (FO) was the principal growth determinant for the OMCs during the period. PSO stood as the major beneficiary with a growth of 16%, thanks to 29% growth in furnace oil. Thus trading at a FY10E and a FY11F PE of 5.9x and 3.3x, respectively, we continue to recommend PSO, as the top pick in the OMC sector.

FO and Mogas sales up 26% and 39% in 5MFY10

Furnace oil sales have remained buoyant in FY10 so far owing to the growing electricity shortage and rising demand from the dual fuel thermal power plants. FO sales were recorded at 3.8mn tons during the first five months of FY10 compared to 3mn tons last year, up 26%. On the other hand, because of the economic slowdown, diesel sales failed to make a major impression - up only 1%YoY to 3.2mn tons. Mogas sales (up 39%YoY to 785k tons) shined during the period when a reduced price differential between CNG and petrol and rising gas shortage discouraged CNG sales in the country. Jet fuel sales also rose to 513k tons – up 28%YoY.

Table: Oil Product sales (in 000 tons)

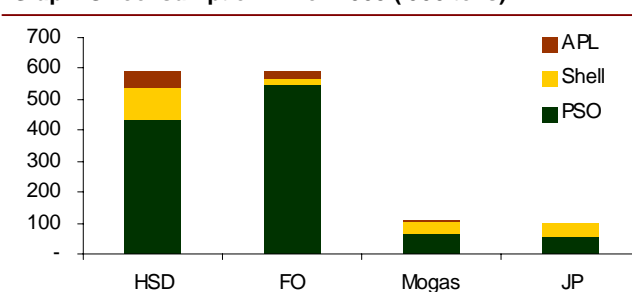
	5MFY10				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	3,186	1,857	584	198	1%	-5%	-7%	73%
FO	3,829	3,396	50	159	26%	29%	13%	-11%
Mogas	785	357	196	43	39%	31%	23%	21%
SKO	66	41	4	7	-15%	-10%	-55%	-9%
LDO	32	10	-	13	-14%	-5%	NM	-44%
JP	513	268	158	24	28%	28%	7%	-25%
Total	8,411	5,929	991	443	16%	16%	0%	13%

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

Nov sales up 14%YoY though down 13%MoM

November's oil sales reflected a decline of 13%MoM to 1.6mn tons, primarily due to extended Eid holidays. FO and Mogas

sales were down 21% and 15%, respectively and diesel sales remained dull too – down 3%MoM. However, on a year on year basis, November's FO and Mogas sales were up 28% and 31%, respectively, resulting in a 14% growth in total oil sales.

Graph: Oil consumption in Nov 2009 ('000 tons)

Source: OCAC

Outlook: Oil sales to grow 17% in FY10

We expect oil sales to grow by 17% in FY10 mainly because of an expected robust growth in the FO business. Furnace oil sales are expected to reach 10.5mn tons by the end of FY10 (up 30%YoY) when some of the rental power projects are expected to come online. Moreover, diesel sales – another major constituent of oil sales is expected to edge up 3% to 7.8mn tons, as economic recovery gradually starts to settle in.

PSO – top pick within the sector

As compared to the first 2 months of the previous quarter (Jul-Aug), FO and diesel sales are already up 26% and 7% in the corresponding period of the current quarter (Oct-Nov), hence, core earnings are expected to remain strong in 2QFY10. Further, with the international oil price averaging above the previous quarter so far, there remains an opportunity to book inventory gains. Going forward, PSO's exclusive fuel supply agreement with Northern Power Generation Company (NGCPL) is expected to further improve its market share in the FO business segment. However, the ongoing circular debt issue remains a major risk for our estimates. Trading at a

FY10E and a FY11F PE of 5.9x and 3.3x, respectively, we reiterate our liking for the scrip.

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Also in focus**CPI for Nov expected at 10.5%**

We expect CPI for Nov 2009, expected to be released today, to arrive at 10.5%. This would mean that inflation would return to double digits after the much touted single digit (8.9%) in Oct09. Two key reasons for the reversal in trend in Nov 09 are the general inflationary pressures and the discontinuance of the high base effect. Average MoM inflation between Mar08-Oct08 stood at 2.4% which helped drive a decline in monthly inflation numbers from 21.1% in Mar09 to 8.9% in Oct09. However, a sharp fall in global commodity prices had seen MoM inflation turn negative between Nov08-Jan09, which would mean a low base effect is expected to occur in the next few months. This coupled with a rise in petroleum prices and an anticipated electricity price hike, is likely to keep CPI numbers in double digits, going forward.

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