

February 09, 2010

**Pakistan Market****Oil consumption up 15%YoY in 7MFY10****MORNING BRIEFING**

KSE100 Index: Closing 9809.98 ↑ (+40.25)

According to the latest numbers released by the OCAC, total oil consumption during the first 7 months (Jul-Jan) of FY10 stood at 11.7mn tons, a growth of 15%YoY. Amongst the OMCs, APL and PSO have been the main beneficiaries with growths of 19%YoY and 14%YoY, respectively. With PSO and APL, trading at FY10E PE of 6.7x and 6.4x, respectively we continue to maintain a 'Buy' stance on both the scrips.

**OMCs thrive on FO sales during 7MFY10**

On the back of 22% and 35% growth in FO and Motor Gasoline (MOGAS), total oil sales have witnessed a robust growth of 15% in 7MFY10 when compared to the corresponding period last year. Growing demand from dual fuel thermal power plants and rising electricity shortage have been principal growth determinants for FO (5.3mn tons), while a reduced price differential between CNG and petrol has helped shore up MOGAS sales to 1.1mn tons. Though up 2%YoY in the 7MFY10, diesel sales failed to make a major impression owing to lackluster economic activity and a troubled law and order situation during the period. Amongst others, Jet Fuel sale was up 34%, while Kerosene (SKO) and Light Diesel Oil (LDO) were down 13% and 10%, respectively.

**Table: Oil Product sales (in 000 tons)**

	7MFY10				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	4,424	2,562	799	282	2%	-4%	-6%	81%
FO	5,267	4,664	69	221	22%	25%	19%	-10%
Mogas	1,101	510	270	55	35%	29%	24%	21%
SKO	93	56	5	10	-13%	-10%	-53%	-10%
LDO	45	13	-	18	-10%	-14%	NM	-35%
JP	767	403	242	35	34%	29%	16%	-8%
<b>Total</b>	<b>11,695</b>	<b>8,208</b>	<b>1,385</b>	<b>620</b>	<b>15%</b>	<b>14%</b>	<b>3%</b>	<b>19%</b>

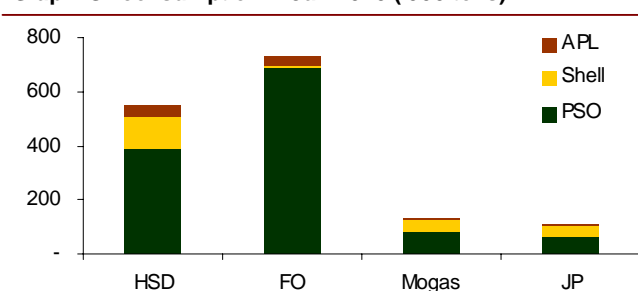
Source: OCAC, \* excluding Non-Energy products &amp; local JP8(Defence)

**January sales positive on all accounts**

January oil sales, which stood at 1.8mn tons, were above par in all respects. Furnace oil continued its buoyant performance

in FY10 with a growth of 10%YoY and 21%MoM to stand at 787k tons in Jan 2010. Diesel sales which for most part of the year have remained subdued also impressed with growths of 10%YoY and 20%MoM. Moreover, primarily on account of gas load shedding at CNG pumps, MOGAS sales jumped to 174k tons – up 40%YoY and 22%MoM.

Going forward, we expect sustained robust oil consumption in the coming months owing to commissioning of further rental power plants and IPPs and increasing gas shortage in the country. Hence, we expect oil consumption to rise to 21.5mn tons – up 13%YoY.

**Graph: Oil consumption in Jan 2010 ('000 tons)**

Source: OCAC

**Outlook: PSO & APL preferred plays**

PSO with its vast distribution and handling capacity has benefited the most from the surge in furnace oil consumption, while APL on the back of expansion in its distribution network saw its diesel sales increase by an impressive 81%YoY. During 7MFY10, PSO sales were up 14%YoY while APL outperformed the industry with a growth of 19%YoY.

Total oil sales for PSO are expected to reach 14.5mn tons (up 11%YoY) in FY10 as its FO segment is expected to post robust growth of 19%. PSO's exclusive fuel supply agreement with National Power Generation Company Limited (NPGCL) is expected to further improve its market share in the FO business segment. However, the ongoing circular debt issue remains a major risk to our estimates. Trading at a FY10E

and a FY11F PE of 6.7x and 5.2x, we reiterate PSO as the top pick in the OMC sector.

Given a diversified product portfolio and a minimal impact of oil price volatility (lower inventory levels), we maintain our 'Buy' call on APL. The scrip is currently trading at a FY10E PE of 6.4x with a dividend yield of 7.9%.

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**Also in focus****Soneri Bank lines up for RBS Pakistan**

Soneri Bank yesterday became the third player to line up for the sale of local operations of RBS Pakistan, joining Faysal Bank and Egypt's EFG Hermes. Soneri Bank currently has a network of 154 branches with a total deposit base of Rs68bn, ranking 15th in the sector, one below RBS's rank of 14th. The stock currently trades at BVPS ex rights of Rs14.5 and a P/B multiple of 0.78x. Soneri has recently issued a 20% right shares at par, to meet the MCR requirement imposed by SBP. If successful, it will be interesting to see how the bank plans to finance the acquisition having issued announced a rights issue in December. Equity injection by sponsors and approaching the debt market could be two possible avenues under consideration.

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