

July 09, 2010

## Pakistan Market

## Refineries: FY10 production down 9%

MORNING BRIEFING



KSE100 Index: Closing 9860.99 ↑ (+71.30)

According to the provisional figures, refinery production in FY10 has witnessed a decline of 9%YoY. Similarly, on a MoM basis, production in June 2010 also declined by ~7% and stood at around 608K tons. Currently, we maintain our 'Market Weight' stance on the sector with 'Buy' recommendation on National Refinery (NRL) and Attock Refinery (ATRL).

## FY10 production down 9%

Total refined oil production in FY10 stood at 8.0mn tons compared to 8.7mn tons in the corresponding period last year, a fall of 9%YoY. Analysis of the product wise breakup reveals that production of Furnace Oil has declined by a significant 20% standing at 2.4mn tons. This decline is primarily attributed to the prevailing circular debt issue in the energy chain especially affecting the cash flows and operations of refineries and Oil Marketing Companies. HSD, too has witnessed a decline in production by 4% (3.1mn tons) mainly owing to dull economic activity in the country. On the other hand, production of jet fuel remained flat at 920k tons. The only noticeable product registering an increase in production was Mogas (Petrol), a growth of 4%YoY. In our view, increased consumption of Petrol due to CNG load shedding and reduced price differential between CNG and Mogas has enabled the refineries to improve Mogas production.

Reviewing refineries individually, PARCO maintained its market leader position, in fact, enhanced its market share to 41% (39% in FY09). The gain was primarily a consequence of a relatively better performance in HSD and Jet Fuel segments, where the company was able to improve market share by 3% and 4%, respectively. Attock Refinery (ATRL) too saw an improvement in its market share, up 2%YoY. This was mainly led by a comparatively better performance in its FO production, where it witnessed a YoY decline of 5%, versus an average 20% decline experienced by the industry.

On the other hand, NRL lost ground by 2%, whereas PRL's share also fell by 2% and stood at 17% in FY10.

## MoM fall of 7% witnessed in production

Total refinery production in the month of June 2010 stood at 608k tons witnessing a decline of 7% vis a vis last month. This was mostly owing to FO production being 11% lower, arriving at 185k tons. HSD production also fell by 10% and stood at 229k tons. However, recovery in Mogas somewhat mitigated the impact of low HSD and FO production.

## Market weight maintained

With improved margins in 4QFY10, we believe the refineries are set to post decent QoQ earnings growth in their upcoming results for the quarter (For details refer to our Morning Briefing dated: 18-June-2010). At present, we maintain our market weight stance on the sector, with a 'Buy' call on NRL and ATRL.

## Also in focus

## World Bank endorses US\$6.2bn loan for FY10-13

The World Bank's Executive Board of Directors has endorsed a proposed lending program of up to US\$6.2bn for FY10-13 under a new Country Partnership Strategy (CPS) for Pakistan. The aim of the support program is to address constraints to growth being faced by the country including, a fragile security situation, unreliable energy supply and poor revenue mobilization. The World Bank also plans to continue its support for health and education systems, as it focuses on poverty reduction. With particular respect to the energy situation, the WB aims to assist in making use of the hydropower potential and help reduce leakages/inefficiencies in the natural gas distribution network in Pakistan. The International Finance Corporation (IFC) has also expressed intention to invest ~US\$1.5bn during this period especially in infrastructure development. Although details are yet to be disclosed, the support is expected to provide a breather to the government and is an important development ahead of the FoDP meeting due in Islamabad on July, 15 2010.

Refinery production (000 tons)

	FY10							YoY-Growth						
	IND	PARC	NRL	PRL	ATRL	BOSI	IND	PARC	NRL	PRL	ATRL	BOSI		
MS	1,330	680	125	119	348	59	4%	5%	-17%	-9%	9%	7%		
HOB	13	13	-	-	-	-	5%	5%	0%	0%	0%	0%		
SKO	121	70	4	2	45	-	-28%	-27%	-51%	-81%	-23%	0%		
JP	920	400	162	182	177	-	0%	8%	-7%	-18%	6%	0%		
HSD	3,113	1,256	639	449	491	228	-4%	6%	-15%	-8%	-6%	-21%		
LDO	66	18	47	-	3	-	-25%	19%	-34%	0%	-7%	0%		
FO	2,448	864	326	586	365	306	-20%	-20%	-18%	-26%	-5%	-27%		
<b>Total</b>	<b>8,011</b>	<b>1,993</b>	<b>1,303</b>	<b>1,339</b>	<b>1,428</b>	<b>643</b>	<b>-9%</b>	<b>-3%</b>	<b>-16%</b>	<b>-19%</b>	<b>-2%</b>	<b>-22%</b>		

Source: OCAC, excluding Non-Energy products

PARC=PARCO, IND = Industry

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