

June 09, 2009

Pakistan Market**OMCs: May oil numbers & outlook****MORNING BRIEFING**

KSE100 Index: Closing 6892.00 ↓ (-2.62)

Liquidity crisis and overall economic meltdown remained the major factors behind 2% decline in oil sales during 11MFY09. White oil sales (including MS/petrol, HSD/diesel, SKO/kerosene and JP/jet fuel) plunged by 7% while black oil (FO & LDO) showed 6% growth in sales. Moreover, on MoM, oil sales remained flat at 1.8mn tons during May 2009.

Diesel dragging oil sales down

Total oil sales were recorded at 16.8mntons during Jul-May 2009, down 2%YoY. With 41% share in oil sales pie, HSD remained the major factor behind this decline as its sales fell by 10% to 6.9mn tons. Broad reasons of declining HSD are 1) slowdown in transportation related activities amid economic downturn 2) penetration of cheaper smuggled Iranian diesel into local oil market.

FO – Oil based generation on the rise

Despite economic slowdown, demand for furnace oil stood at 7.4mn tons during 11MFY09, up 7%YoY. This is due to growing electricity shortage in the country. Although we hardly saw any capacity additions in past few years, demand for this product grew by 95% during last 4 years (FY05-FY08). This is due to 1) higher electricity generation by IPPs (improved load factor) and growing reliance on oil-fired power generation by multi-fuel power plants amid gas shortage. According to latest statistics, gas supply to power plants declined annually by 3% during last 4-years. As a result, gas which had a share of 75.2% in thermal electricity generation in FY04 has now dropped to 51.6%. On the other hand, oil contribution doubled in last 4-years to 48.3%.

Oil products import up 6%

In contrast to declining oil sales, import grew by 6% to 8.9mn tons- mainly due to liquidity constraint in the refinery sector. During this period, import of FO grew by 18% to 4.6mn tons while import of petrol and jet fuels grew by massive 70% and 107% to 215k tons and 225ktons, respectively. Import of diesel, on the other hand, dropped by 10% to 3.8mn tons.

PSO remained dominant in FO business

With liquidity crunch looming in the energy sector amid delay in payments from WAPDA, private sector OMCs have taken a back seat in furnace oil (FO) business. This is evident in 11MFY09 sales figure as industry FO sales increased by 7% to 7.4mn tons while PSO's FO sales were up 11% to 6.4mn tons, increasing its market share to 86% in FO business.

Table: Oil Product sales (in 000 tons)

	11MFY09				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	6,854	4,207	1,340	254	-10%	-13%	-13%	26%
FO	7,448	6,438	74	436	7%	11%	-56%	-6%
Mogas	1,368	660	332	68	2%	0%	-3%	91%
SKO	164	94	18	18	-22%	-35%	-31%	-6%
LDO	82	25	0.40	49	-29%	-44%	-74%	-13%
JP	929	524	321	62	8%	16%	22%	-17%
Total	16,846	11,948	2,085	888	-2%	0%	-11%	4%

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

Outlook: Growing reliance on imported fuels

Rising electricity demand and higher infrastructure spending is likely to improve oil demand in the country. We believe, oil sales will grow by 7% during next 3 years -mainly led by higher furnace oil demand. We expect FO demand to surge further once rental power plants come online in the next 1-2 years. According to our estimates, 3,000MW of rental power plants would require 2.8-3.3mn tons of FO. This will increase oil import bill by US\$1bn (at current oil prices) due to the fact that local refineries can only produce 3.3-3.5mn tons (42% of the existing demand). This paints a favorable landscape for OMC's in general and PSO in specific since it holds 87% share in FO marketing.

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Also in focus**Cement exports breakdown for May 2009**

All Pakistan Cement Manufacturers Association (APCMA) has recently released the detailed breakdown of cement exports for the month of May 2009. Afghanistan and India were the major contributors towards cement exports growth of 16%MoM. Exports to Afghanistan jumped 26%MoM while India posted a handsome growth of 33%. Exports to the Middle East and African region also depicted a decent growth of 12%MoM.

Going forward, this along with high PSDP allocation in the upcoming budget bodes well for the cement sector. Major beneficiaries from the combination of the above two factors are likely to be Lucky and DG Khan Cement. We currently have a 'Market-Weight' stance on the sector along with 'Buy' recommendation on both DG Khan and Lucky Cement.

Table: Cement exports break down (tons)

	May-09	Apr-09	Δ%
Afghanistan	297,098	236,427	26%
India	81,909	61,790	33%
Other (Sea)	787,972	705,727	12%
Total	1,166,979	1,003,944	16%

Source: APCMA

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