

February 10, 2010

Pakistan Market**Refineries: 7MFY10 production update****MORNING BRIEFING**

KSE100 Index: Closing 9786.46 ↓ (-23.52)

Based on provisional figures, refinery production in 7MFY10 has witnessed a decline of 7%YoY. Similarly, on a MoM basis, production in January 2010 fell by 6% and stood at around 652K tons. Currently, we maintain a 'Market Weight' stance on the sector and a 'Buy' recommendation on National Refinery (NRL).

7MFY10 production down 7%

During Jul-Jan FY10, total refined oil production stood at 4.8mn tons compared to 5.2mn tons in the corresponding period last year, a fall of 7%YoY. Furnace oil too witnessed a fall in its production of 16%YoY. The only product registering an increase in production was Mogas, showing a growth of 2% on YoY basis. The overall dip in production can be attributed to the persisting circular debt situation affecting refinery operations. A scheduled maintenance shut down at NRL in July 09 was another causal factor behind the slump.

Table: Refinery production (000 tons)

	Jul-Jan FY10						YoY-Growth					
	IND	PARC	NRL	PRL	ATRL	BOSI	IND	PARC	NRL	PRL	ATRL	BOSI
MS	782	394	62	78	208	40	2%	-3%	-24%	13%	11%	73%
HOB	7	7	-	-	-	-	-17%	-17%	NM	NM	NM	NM
SKO	77	45	3	2	26	-	-25%	-23%	-28%	-68%	-18%	NM
JP-1	547	246	88	116	96	-	-3%	7%	-16%	-4%	-7%	NM
HSD	1,891	767	369	280	285	190	-3%	0%	-16%	-2%	1%	6%
LDO	40	10	28	-	1	-	-24%	11%	-33%	NM	-14%	NM
FO	1,470	525	181	346	210	209	-16%	-8%	-28%	-26%	-7%	-11%
Total	4,813	1,993	731	823	826	439	-7%	-3%	-21%	-14%	-1%	0%

Source: OCAC, excluding Non-Energy products

PARC=PARCO, IND = Industry

Reviewing refineries individually, PARCO maintained its market leader position, infact, enhanced its market share slightly to 41%. This gain was primarily a consequence of a relatively better performance in FO, HSD and Jet fuel segments, where the company was able to improve market share by 3%, 1% and 4%, respectively. Attock Refinery (ATRL) too saw an improvement in its market share (+1%). This was mainly led by a comparatively better performance in

its FO production, where it witnessed a YoY decline of 7%, versus a 16% fall experienced by the industry.

NRL on the other hand, lost ground by 3%, whereas PRL's share remained unchanged staying around 18%.

MoM fall of 6% witnessed in production

Total refinery production in the month of January 2010 stood at 652K tons witnessing a decline of 6% vis a vis last month. This was mostly because of the FO production being 9% lower, arriving at 199k tons. HSD production also fell by 7% and stood at 253k tons. However, recovery in Mogas and LDO production mitigated the impact of low HSD and FO production to an extent, in volumetric terms.

Market weight maintained

At present, we maintain our market weight stance on the sector, with a 'Buy' call on NRL.

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Also in focus**POL: 1HFY10 EPS stood at Rs14 per share**

Pakistan Oilfields Limited announced its 1HFY10 today, as per which the company posted net profit of Rs3.3bn (EPS Rs14 per share), a decline of 14%YoY. Though average Arab Light and gas wellhead prices were lower compared to last year, higher oil and gas production from Manzalai somewhat supported the company's top line, which stood at Rs7.6bn (down 12%YoY). Similarly, despite incorporating the cost of dry well in 2QFY10, company's exploration cost witnessed a major decline of 67% as it stood at Rs579mn. Higher effective tax rate of 22% also kept the bottom line in check. Along with the results, POL also announced interim cash dividend of Rs8 per share. On quarter on quarter basis, the company posted a significant 33% growth in its profitability, versus 1QFY10. The growth is mainly attributed to recovery in crude prices witnessed during the quarter and commencement of additional oil and gas flows from Manzalai.

Currently, the stock is trading at FY11F PE of 5.8x, hence we maintain our 'Buy' stance on the stock.

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