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Pakistan Market**MORNING BRIEFING****Energy trend: Declining gas supply to power plants**

KSE100 Index Closing 5455.67 ↓ (-117.81)

Hydro Carbon Development Institute has issued Pakistan Energy Year Book FY08, according to which share of imported energy has risen to 35% in FY08 versus 30% in FY04. This is mainly due to higher import of refined oil products on the back of higher oil demand from thermal power plants.

Moreover, energy consumption grew by 4-year (FY04-08) CAGR of 8%, whereas energy supplies have risen by 5% with significant shift in energy supply mix from gas to oil over the last few years. In today's report, we give a snapshot of current energy supply and consumption patterns in the country.

Primary energy supplies up 3.8%

Country's primary energy supplies depicted a growth of 3.8% in FY08 and stood at 62.9mn toe (tons of oil equivalents) versus 60.4mn toe last year. During last 4-year (FY04-FY08) average growth stood at 5% which is significantly lower than 9.31% growth in FY05 and 8.06% in FY04. Gas, which is locally produced, remains the main stay of energy supplies.

Table: Primary Energy Supplies

Source	FY08		FY07		FY04	
	mn toe	Share	mn toe	Share	mn toe	Share
Oil	19.2	30.5%	18.1	29.9%	15.2	29.9%
Gas	29.9	47.5%	29.3	48.4%	25.3	49.7%
LPG	0.4	0.7%	0.5	0.8%	0.2	0.4%
Coal	5.8	9.2%	4.4	7.3%	3.3	6.5%
Hydro Power	6.9	10.9%	7.7	12.6%	6.4	12.7%
Nuclear Power	0.7	1.2%	0.5	0.9%	0.4	0.8%
Total	62.9	100.0%	60.6	100.0%	50.8	100.0%

Source: Energy Year Book FY08

However, its share in overall supplies has declined to 47.5% from 48.4% last year and stood at 29.9mn toe. Oil supply during the period surged by 5.6% to 19.2mn toe thus increasing oil's share to 30.5% against 30% last year.

Out of total supplies which include gas, oil, LPG, coal, hydro and nuclear electricity, indigenous production contributed 68.5% in FY08 as compared to 70.6% share in FY07 and

72.3% in FY04. Reliance on imported energy is due to higher demand for petroleum products, especially furnace oil for electricity generation. As a result, imports of petroleum products grew by a CAGR of 14% during last 4-years.

Consumption stood at 39.4mtoe

After adjusting transmission, system losses and non-energy use, final energy consumption of the country stood at 39.4mn toe, up 9% YoY. Share of gas and oil in energy consumption stood at 40.3% and 29.3%, while that of, electricity, coal and LPG stood at 15.2%, 13.7% and 1.5%, respectively.

Lesser gas available to power plants

Owing to rising gas shortage and availability of alternative fuel like furnace oil (FO), gas supply to power plants declined annually by 3% during last 4-years. Besides these factors, phenomenal increase in CNG consumption (43% CAGR) during this period also confined gas supplies to power sector. In terms of fuel mix, gas remains the primary contributor to thermal power generation with consumption of 8.5mtoe (54.9% share). On the other hand, oil contribution doubled in last 4-years to 44.7%. In FY04, gas share in thermal power generation was 77.5%, whereas oil had a share of 21.9%.

Situation favors the E&P companies

With oil & gas occupying 78% share in primary energy supplies, the rising energy consumption bodes well for the E&P firms. Local crude oil production meets only 18% of oil demand, while Pakistan is facing a gas supply shortage as well. Hence, the current situation favors E&Ps and providing an opportunity to enhance exploration activities and realize the upside potential in their asset portfolios. However, Rs150bn plus circular debt in the energy system is a major concern that could potentially hamper oil supplies, with reports suggesting that refineries are operating at 65-68% of their capacity. We remain 'Over-weight' on E&P companies while 'Market-weight' on OMCs and Refineries.

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Also in focus**Engro Polymer: Analyst briefing update**

Engro Polymer (EPCL) yesterday held an analyst briefing to discuss its full year 2008 results. The company posted earnings of Rs353mn in 2008, a decrease of 16%. Reasons identified by the management for the decline were mainly Rs130mn write down of inventory and Rs210mn loss from currency fluctuations on raw material imports and exchange losses.

The company also announced the commercial production of additional 50k tons p.a. from Jan 01, 2009, taking the total installed capacity for PVC production to 150k tons p.a. Going forward, the company is expecting the integrated chemical complex to be complete by the end of 1HCY09. EPCL expects to capture the market of PVC scrap imports which are around 20-25k tons per annum hence they expect a decent utilization rate going forward. Moreover, the management also announced they are under negotiation with KESC for selling excess 15 MW electricity produced through their combined cycle power plant.

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