May 13, 2009

Pakistan Market

Oil production and sales print

MORNING BRIEFING

KSE100 Index: Closing 7296.90 ↑ (+173.98)

Both oil sales and production numbers depicted negative growth of 2% and 6% respectively during 10MFY09. This excludes non-energy products like lubes, base oils and Asphalt. We believe the production decline is primarily due to long-delay of inter-corporate debt settlement by Pepco. With 50% resolution of the inter-corporate debt, we expect an improved output from refineries in months to follow.

Sales & production down 2% and 6%

Sales: According to the latest numbers released by OCAC, overall sales of fuel products recorded at 15mn tons, down 2% YoY, in 10MFY09. The decline is mainly led by diesel sales (comprises 41% of fuel sales), down 8% YoY. In contrast, furnace oil (FO) sales grew by 5%YoY.

Table 1: Oil Product sales (in 000 tons)

	10MFY09				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	6,122	3,760	1,201	219	-8%	-11%	-14%	24%
FO	6,692	5,802	70	385	5%	9%	-55%	-10%
Mogas	1,216	588	295	48	0%	-2%	-5%	49%
SKO	150	86	17	16	-22%	-36%	-30%	3%
LDO	73	23	0.40	43	-31%	-47%	-73%	-14%
JP	833	468	290	55	6%	13%	23%	-19%
Total	**15,087**	**10,727**	**1,872**	**766**	**-2%**	**0%**	**-12%**	**-1%**

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

Production: Local refinery production came in at 7.4mn tons (down 6% YoY), primarily due to liquidity constraint fueled by long-due inter-corporate circular debt. As a result, all the refineries showed negative production growth, except for Bosicor Pakistan. Low- base and plant revamp has led the production increase of Bosicor. Capacity utilization of the sector plunged to 87% compared to 99% last year. However, these numbers are expected to improve in the months to follow due to payments made by OMC's. Refineries received Rs41bn out of Rs80bn inter-corporate debt settlement by Pepco.

Table 2: Refinery production (000 tons)

	10MFY09					YoY-Growth				
	IND	PAR	NRL	PRL	ARL	IND	PAR	NRL	PRL	ARL
HSD	2,727	999	640	401	394	-4%	-7%	-6%	-12%	-7%
FO	2,571	886	359	664	308	-7%	2%	-17%	-17%	-14%
MS	1,071	549	125	106	244	-3%	-7%	15%	18%	-14%
SKO	151	81	8	10	44	-16%	-11%	-34%	-36%	-13%
LDO	72	11	53	-	2	-28%	-60%	-29%	-	-50%
JP	804	309	146	188	149	-8%	-7%	-1%	-12%	-10%
Total	**7,397**	**2,836**	**1,332**	**1,368**	**1,142**	**-6%**	**-5%**	**-9%**	**-13%**	**-11%**

Source: OCAC, excl. Non-Energy products, PAR=PARCO, IND=Industry

FO sales scaled up– positive for PSO

FO, which retains the major chunk of oil sales, is currently witnessing a higher demand from power plants due to gas and hydel-electricity shortages. As a result, sales rose 5% to 6.7mn tons during 10MFY09. According to latest statistics, Pakistan reliance on FO has increased substantially over the last 2-3 years as 32% of the electricity is now generated through FO, compared to 16% 3 years ago. We expect the FO demand will surge 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 paints a favorable landscape for OMC's in general and PSO in specific since it holds 87% share in FO marketing.

White oil sales showing declining trend

In contrast to Black oil (mainly FO), White oils showed overall decline of 6%. Broad reasons of declining HSD and Mogas (petrol) consumption are 1) slowdown in transportation related activities due of economic slowdown, and 2) Availability of cheap smuggled Iranian diesel & petrol in the market. However, we expect diesel and petrol sales to reverse upon economic recovery in FY10. Additionally, cut in domestic prices is the upside risk to the demand for while oil. We expect GoP will reduce oil prices in the range of 10-15% post June, provided international oil prices remain at current level.

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Also in focus

Oil prices: SC order and its implications

A special commission formed by Supreme Court (SC) has finally directed the government to reduce domestic oil product prices on war footings. Besides, this the committee has also raised some reservations over the refinery pricing formula.

Implications:

1) Reduction in prices would lower government's tax collection on oil. Apart from normal GST, GoP is collecting PDL of Rs10-11bn a month on oil products. 2) For OMCs and refineries, the impact would be neutral since their margins are linked to international product prices. However, cautious stance is suggested for investors who have invested in the refinery sector since there has been a debate going on to rationalize refinery margins.

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