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Pakistan Market**Oil sales down 4% in 1HFY09****MORNING BRIEFING**

KSE100 Index Closing 6051.16 ↓ (-7.93)

Liquidity crisis and overall economic meltdown remained the major factors behind 4% decline in oil sales during 1HFY09 (Jul-Dec 2008). White oil sales plunged 5% while black oil showed 2 % decline in sales. Moreover, on QOQ basis, oil sales are down 7% during Oct-Dec2008.

Diesel led to overall decline in sales

Total oil sales recorded 8.6mntons during Jul-Dec 2008, down by 4%YoY. With 43% share in oil sales pie, diesel remained the major factor as its sales fell by 6% to 3.7mn tons during this period. Besides penetration of cheap Iranian diesel into local market, liquidity crunch and slowdown in economy were other reasons behind declining diesel sales.

Product availability was the major issue faced by OMCs due to liquidity crunch. Similarly pump dealers were also facing liquidity crisis which eroded their spare capacities. OMCs are facing cash crunch due to circular debt while dealers due to their declining margins amid fall in international oil prices. Historically dealers had 3 days of diesel inventory cover which came down to 1 day during later months of calendar year 2008, according to industry sources.

Secondly, slowdown in economy also led to decline in diesel demand, which came as a blessing in disguise when liquidity is a key issue in the energy sector.

Table 1: Oil Product sales (in 000 tons)

	Jul-Dec 2008				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	3,700	2,282	741	134	-6%	-7%	-8%	22%
FO	3,615	3,136	49	199	-1%	4%	-46%	-25%
Mogas	692	334	171	31	-7%	-10%	-10%	47%
SKO	90	52	10	10	-20%	-35%	-12%	8%
LDO	43	13	0	25	-36%	-56%	-61%	-15%
JP	492	262	181	35	4%	4%	40%	-25%
Total	8,632	6,079	1,151	433	-4%	-2%	-6%	-10%

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

PSO take charge in FO business in liquidity crisis

With liquidity crunch looming on the energy sector amid delay in payments from WAPDA to IPPs, private sector OMCs have taken a back seat in furnace oil (FO) business due to non payment of dues by IPPs. This is evident in 1HFY09 sales figure as industry FO sales dropped by 1% to 3.6mn tons while PSO's FO sales are up 4% to 3.1mn tons, increasing its market share to 87% in FO business.

Petrol & jet fuel: Products with +ve growth QoQ

On QoQ basis, total oil sales recorded 4.2mn tons during Oct-Dec 2008, down 7% as compared to 4.5mntons in Jul-Sep 2008 quarter. Despite 40% average decline in furnace oil prices during this period, FO sales dropped by 13% mainly because of liquidity crunch. Similarly, 4% decline was seen in diesel sales. Petrol (Mogas) and jet fuels (JP) were only products which showed positive growth. Petrol sales grew marginally by 2% while jet fuel showed 5% growth in sales.

Table 2: Oil Product sales (in 000 tons)

	Oct-Dec 2008				QoQ-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	1,812	1,117	355	62	-4%	-4%	-8%	-13%
FO	1,685	1,479	14	81	-13%	-11%	-60%	-31%
Mogas	349	170	84	22	2%	3%	-3%	162%
SKO	43	24	4	4	-11%	-13%	-19%	-28%
LDO	20	6	0	12	-10%	-4%	1800%	-8%
JP	252	141	95	12	5%	15%	10%	-49%
Total	4,162	2,937	553	194	-7%	-7%	-8%	-19%

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

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Also in focus**Cotton prices rise sharply**

Spot rate for cotton rose sharply yesterday by Rs75 to Rs3275 per maund. This sharp increase was mainly due to continued buying by mills amid worries regarding short crop this season. According to government officials, cotton arrivals are expected to be in the region of 11.5 – 12m bales which is close to our estimate of 12m bales but far below government's initial target of 14.2m bales.

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