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Pakistan Market

APL: Defensive play among OMCs

MORNING BRIEFING

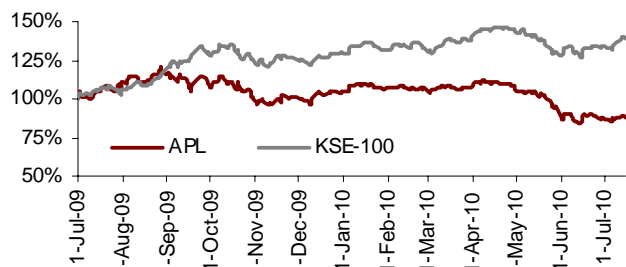


KSE100 Index: Closing 10095.80↓ (-91.20)

We highlight Attock Petroleum Limited (APL) as a top defensive pick within the oil marketing sector given its lower earnings volatility to international oil price shocks and lower share in furnace oil sales. Following the release of FY10 oil consumption numbers, we have tweaked up APL's earnings estimates by 1-4% for FY10-13. At current levels,

APL offers a potential upside of 44% to our target price of Rs421 alongwith an FY11F dividend yield of 11%. Underperforming the index by 17% since the beginning of 4QFY10, the stock is trading at an attractive one year forward looking PE and PBV of 4.8x and 1.3x – a discount of 34% and 63% respectively, to their historical 5 year averages.

APL's relative performance to the market



Source: KSE

Improves market share to 5.6% in energy products

APL has been successful in increasing its market share in Petrol and HSD sales with concerted efforts to expand its retail distribution network. Resultantly, sales of Petrol and Diesel have increased by 86%YoY and 66%YoY respectively in FY10, compared to the industry's growth of 27% and -3%. However, APL's preference to avoid getting embroiled in the inter-corporate debt, has seen its furnace oil sales decline by 13%YoY, when the industry's sales grew by 15%. Consequently, APL's total sales of energy products for FY10 arrived at 1.13mn tons – up 17% from last year, resulting in its market share enhancing by 38bps to 5.6% from 5.2% earlier.

APL's full year sales

('000 tons)	FY10	FY09	%Δ
Mogas	97	52	86%
SKO	16	19	-19%
JP	69	70	-1%
HSD	490	295	66%
LDO	46	51	-9%
FO	413	476	-13%
Total	1,130	963	17%

Source: JS Research

Non-energy segment holds steady in FY10

Asphalt production during 11MFY10 has also remained stable, with output rising by 0.3%YoY to 265k tons. It is a primary raw material in construction of roads and contributes ~50% to the gross profit of the company. Going forward, we expect Asphalt sales to pick up on the back of expected gradual economic recovery.

APL's quarter sales

('000 tons)	4QFY10	3QFY10	%Δ
Mogas	29	20	47%
SKO	4	4	14%
JP	22	19	13%
HSD	120	128	-6%
LDO	12	13	-5%
FO	123	102	21%
Total	311	286	9%

Source: JS Research

Core margins likely to improve QoQ

On the back of higher international oil prices, APL core margin is likely to improve on account of an average 5% improvement in per liter margins of regulated products. Moreover, share of higher margin products in sales has grown in 4Q as Petrol and Kerosene oil sales (average margin of Rs1.93/liter) registered growth of 47% and 14% respectively, whereas sales of Diesel (fixed margin of Rs1.35/liter) declined

by 6% during the period. In addition, total sales volumes of energy product have witnessed a growth of 9%QoQ.

Recommendation: Buy!

We expect the company's profits to grow by 14% in FY11 owing to expansion of its retail distribution network. Resolution of the inter-corporate debt should help boost the company's furnace oil sales, going forward. Moreover, limited exposure to fluctuation in international oil prices owing to lower inventory levels enables a stable earnings stream for the company compared to other OMCs. With the scrip trading at a discount of 34% and 63% to its historical PE and PBV respectively, and offering a potential upside of 44% to our target price of Rs421, we reiterate our 'Buy' stance.

Earnings revision (EPS)

	FY10E	FY11F	FY12F	FY13F
Old	54.3	61.3	64.7	66.0
New	55.8	63.7	66.4	66.8
Change	3%	4%	3%	1%

Source: JS Research

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