

August 18, 2010

Pakistan Market**Refineries: Production down 1%YoY****MORNING BRIEFING**

KSE100 Index: Closing 9677.89 ↑ (+140.76)

Based on provisional statistics, country's refinery production in July 2010 stood at 673k tons, down 1%YoY. However, a key point of concern for us is the falling GRMs in 1QFY11 suggesting a weaker outlook for sector earnings in the coming quarter. Taking into consideration the volatile nature of GRMs, high regulatory risk and prevailing circular debt situation, we remain 'Market weight' on the refinery sector.

Production down 1%YoY in July 2010

Total refined oil production in July 2010 stood at 673k tons compared to 679k tons in the corresponding period last year, a meager fall of 1%YoY. A product wise analysis reveals that the decline is mainly attributed to 12% and 10% respective decrease in Furnace Oil and Jet Fuel production. However, the effect was somewhat mitigated by higher HSD production in this period. HSD production in July was up 7%YoY and reached 275k tons mainly due to better product margins encouraging the refineries to raise their operating rates during the month. Similarly, Mogas production in the period was also up by 10%YoY and stood at 114k tons primarily on the back of improved product demand in the country amid gas load shedding at CNG stations and reduced price differential between petrol and CNG.

Refinery production (000 tons)

	July 2010					YoY-Growth				
	IND	PARC	NRL	PRL	ATRL	IND	PARC	NRL	PRL	ATRL
MS	114	63	11	9	32	10%	19%	872%	-25%	2%
HOBO	1	1	-	-	-	-6%	-6%	NM	NM	NM
SKO	9	5	0	-	4	-17%	-32%	232%	-100%	23%
JP	72	28	13	12	18	-10%	-23%	111%	-42%	20%
HSD	275	110	76	38	50	7%	-1%	141%	-22%	20%
LDO	6	-	6	-	0	32%	NM	184%	NM	-44%
FO	196	71	47	48	30	-12%	-6%	93%	-28%	-5%
Total	673	277	153	108	135	-1%	-3%	134%	-28%	9%

Source: OCAC, excluding Non-Energy products

PARC=PARCO, IND = Industry

Reviewing refineries individually, PARCO maintained its market leader position with a market share of 41% (42% in July 2009). PRL lost ground due to a maintenance outage in July 2010 resulting in its market share falling to 16% versus 25% in the same period last year. On the other hand, NRL remained the key gainer witnessing its market share surging to 23% from 10% in July 2009. This massive growth is mainly the outcome of low production base last year due to a 22 days scheduled turnaround in July. ATRL too saw an improvement in its market share, up 1%YoY to stand at 20% in July 2010.

Falling GRMs in 1QFY11

After witnessing an impressive last quarter in terms of GRMs (yet to be reflected in 4QFY10 results), the margins have started to shrink as so far in 1QFY11 the average industry GRMs have fallen to around US\$3 per barrel versus ~US\$3.8 per barrel recorded in the previous quarter. Our estimates suggest that PRL's GRMs have again turned negative on the back of an average downward revision of 1% in product prices in August 2010 compared to a 4% upward movement in the crude price. NRL and ATRL however are still likely to be operating on positive GRMs.

Outlook: 'Market-weight' maintained

With the current GRM trend in 1QFY10, we foresee refineries to post weaker first quarter results in FY11. We remain 'Market weight' on the sector amid highly volatile nature of GRMs, regulatory risk and prevailing cash crunch owing to circular debt situation. However we retain our 'Buy' call on NRL mainly on the back of company's stable lube earnings and its relatively comfortable liquidity situation.

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Also in focus**July current account deficit narrows to US\$635mn**

According to the data released by the SBP, Pakistan's current account deficit for July shrank slightly to US\$635mn, compared to US\$645mn recorded in the same period last year. Strong remittances and rising exports helped the deficit to remain at a manageable level. However, on a MoM basis the deficit rose by US\$194mn from US\$441mn recorded in June. To recall, the current account deficit target set by the government for FY11 is 3.8% of the GDP.

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