

June 18, 2010

**Pakistan Market****Refineries: Strong GRMs to light up 4QFY10 results** KSE100 Index: Closing 9676.71 ↑ (+239.83)**MORNING BRIEFING**

After staying slim in 1HFY10, GRMs (Gross Refining Margins) for the local refineries depicted a marked improvement in the second half, especially in the current quarter where average GRMs are hovering in the range of US\$4.8 per barrel compared to the YTD average of US\$1.7 per barrel. Backed by enhanced product spreads, the healthy GRMs suggest decent QoQ earnings growth for refineries in the final quarter.

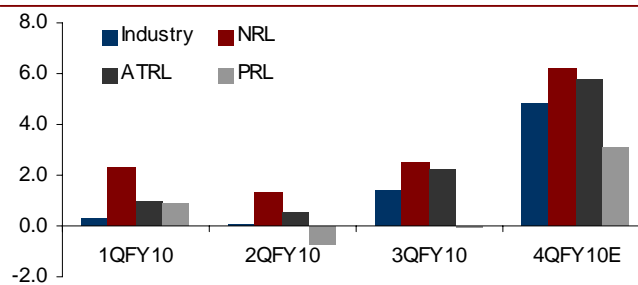
**GRMs at US\$4.8 per barrel in 4QFY10**

Local refinery margins so far have risen by around US\$3 per barrel to US\$4.8 per barrel in 4QFY10 versus last quarter average margin of US\$1.7 per barrel. Our estimates are based on weighted average spreads minus average crude processing cost. The key reason for the recovery in margins was relatively stable product prices while crude prices plunged, especially in the month of May, improving the weighted average spread to US\$11 per barrel. The key contributors in this growth were HSD and aviation fuels which jointly contribute around 50% to the country's total production. Though for the month of June, product prices have been revised down by an average 6%, we believe the GRMs for the current month are encouraging so far as they are still hovering in the vicinity of US\$6.8 per barrel. Our estimates for the month of June are based on the average crude price for first 16 days of the month and any significant variation in crude prices from this point on could affect the average GRMs for the current month.

**Earnings outlook positive for NRL, ATRL & PRL**

As per our estimates, during Apr-Jun 2010, the average fuel refinery margins for NRL are likely to stand around US\$6.2 per barrel, versus US\$2.5 per barrel in the previous quarter depicting a potential of positive earnings from the fuel business. In addition, we expect positive earnings contribution from the lube business on the back of segment's stable profit margins. Likewise, ATRL's GRMs are also expected to stand in the vicinity of US\$5.8 per barrel (US\$2.3 per barrel last quarter) suggesting a possibility of earning profits from its fuel

business this quarter. For PRL as well, we believe the company could post positive earnings this quarter as the company's GRMs are hovering around US\$3 per barrel versus negative margins in last 2 quarters.

**GRMs (US\$ per barrel)**

Source: JS Research

**Inventory loss to partially offset positive GRMs**

Owing to a major dip in international crude and petroleum prices in May, where Arab Light crude price fell by 9%, we believe the three refineries would incur inventory losses in the vicinity of Rs40-90mn each during 4QFY10. However, despite this earnings dampener, the bottom line of the three could stay in green.

**Recommendation: 'Buy' NRL and ATRL**

On the back of positive GRMs and better results expected for the coming quarter, we reiterate our 'Buy' call on NRL and also upgrade our stance on ATRL to 'Buy'. For PRL, we maintain our 'Sell' stance.

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**Also in focus****C/A registers surplus of US\$136mn in May**

Current account balance registered a surplus of US\$136mn in May, taking the cumulative 11MFY10 figure to a deficit of US\$3.0bn as against US\$8.7bn in the corresponding period last year, representing a 66% decline on a YoY basis. Lower YoY trade deficit coupled with higher remittances continue to make current account data, one of the most improved macro economic fundamentals in FY10. The favorable balance in May was mainly down to the US\$288mn received under Coalition Support Fund (CSF) on account of services rendered in the War against Terror. Resultantly, C/A deficit as percentage of GDP for the 11MFY10 came in at 1.8%.

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