

November 24, 2009

**Pakistan Market****Refineries: Positive news flow on deemed duty****MORNING BRIEFING**

KSE100 Index: Closing 9221.96 ↓ (-84.40)

As per media reports, the committee responsible to analyze the pricing and duty structure of local refineries has been instructed to formulate its proposals and send to the ECC (Economic Coordination Committee) for final approval. One of the possible proposals in this regard is to replace the current 7.5% deemed duty on diesel with a 10% processing fee. Although, no decision has been made, but if the development materializes, it would lead to significant improvement in sector's bottom line.

Moreover, with the current spike in global crude prices, the refinery margins are currently hovering in the negative zone.

**10% processing fee to boost earnings**

According to the news, there is a possibility that the current 7.5% deemed duty on diesel could be substituted by a 10% processing fee for the refineries. Based on our initial estimates, this development could improve the annualized per share earnings of ATRL, NRL and PRL by Rs6.2, Rs7.3 and Rs9.7, respectively. However, due to lack of clarity in the matter, we are not incorporating this impact in our earnings forecast and keeping our valuations and sector stance intact.

**Negative margins so far on fuel business**

During the first two months of ongoing quarter (2QFY10), GRMS on fuel products were recorded in the vicinity of US\$-3 per barrel versus US\$-1.5 per barrel in the previous quarter. As per our analysis, negative margins are due to lower spreads earned on diesel and higher negative spread on furnace oil (a loss making product), relative to last quarter. Currently, spread on diesel stands at around US\$5 per barrel, down from US\$9.2 per barrel in 1QFY10 and furnace oil at negative US\$13 per barrel against negative US\$9.4 per barrel last quarter. Both these products make up around 70% share in overall production.

**Margins might recover in Dec 2009**

Going forward, we expect, GRMs to witness an improvement in the range of US\$1-2 per barrel during Dec 2009. This is

based on the assumption that international crude oil prices have increased by 5% so far in Nov 2009 versus the previous month. Based on this, we expect an upward revision in the product prices as the monthly product prices set by OGRA are based on last 30 day average prices.

**'Market Weight' maintained**

The sector currently trades at FY10E PE of 4.5x. Looking at the historical trend, refineries normally trade at significantly lower PE due to highly volatile earnings, hence we maintain our 'Market Weight' stance on the sector with 'Buy' call on PRL and NRL. For ATRL, we recommend 'Hold'.

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**Also in focus****Suroor Investments to acquire stake in Atlas Bank**

Suroor Investments is set to continue its acquisition run, and now plans to acquire a majority stake in Atlas bank after acquiring stakes in both Arif Habib Bank and Mybank. The investment company is to acquire a 58.31% stake in the bank at a price of Rs4.5per share, a total value of Rs1.3bn. As of Sep 2009 accounts, this deal would translate into a P/B multiple of 0.86x. Currently, Atlas Bank has a network of 40 branches.

**Soneri Bank to issue 20% rights**

Soneri Bank, in a notice issued to the Exchange yesterday has declared a 20% right issue at par in order to meet the minimum paid up requirement of Rs6bn set by the State Bank of Pakistan. Currently, the paid up capital of the bank stands at Rs5.02bn, which after a fully subscribed issue is expected to rise just above the Rs6bn mark. This follows a recent announcement by Silk Bank to recapitalize via a rights issue.

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