

September 24, 2009

**Pakistan Market****PSO: FO sales up 63% in August 2009****MORNING BRIEFING**

KSE100 Index: Closing 9436.82 ↑ (+213.43)

According to the data released by OCAC, oil demand in the country has significantly improved by 37% in the month of August 2009, thanks to consistent rise in furnace oil demand and sharp recovery in diesel (HSD) sales. Interestingly, PSO's sales grew by stunning 44% during this period, due to efficient volume handling by the company. The company supplied 31,000 tons of FO per day to the thermal plants in the month of August 2009 compared to 19,000 tons in August 2008, up 63%YoY (based on 25 working days).

We maintain our 'Buy' stance on PSO which is trading at FY10 and FY11 PE of 6.8x and 3.9x. The stock presents 15% upside to our fair value of Rs380 per share.

**FO: PSO's market share rises to 90% in August**

To improve electricity generation through existing power plants, a Committee was constituted on July 21 2009 which instructed PSO to supply 35k tons of FO to Wapda generation companies and IPPs. This is the reason we saw FO sales grew by massive 49%YoY to 860k tons in the month of August 2009. Interestingly, diesel (HSD) sales also recovered sharply posting 26% volumetric growth during the month, led by gradual improvement in trade activities on the back of overall economic recovery.

**Table 1: Oil Product sales (in 000 tons)**

	Aug-09				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	695	402	130	36	26%	22%	14%	61%
FO	860	777	13	31	49%	63%	54%	-35%
Mogas	177	75	47	12	60%	43%	0%	0%
SKO	14	9	1	1	-18%	-8%	-60%	-17%
LDO	8	3	-	4	19%	46%	NM	-1%
JP	98	55	35	5	12%	18%	15%	-36%
<b>Total</b>	<b>1,851</b>	<b>1,321</b>	<b>226</b>	<b>90</b>	<b>37%</b>	<b>44%</b>	<b>12%</b>	<b>-7%</b>

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

PSO was the star performer in the month of August with stunning 44% oil sales growth. The company's FO and diesel

sales grew by 63% and 22% to 777k tons and 402k tons, respectively.

**Table 2: Oil Product sales (in 000 tons)**

	2MFY10				YoY-Growth			
	Industry	PSO	Shell	APL	Industry	PSO	Shell	APL
HSD	1,301	757	250	71	0%	-5%	-10%	44%
FO	1,672	1,481	17	58	37%	45%	-44%	-24%
Mogas	322	140	84	20	41%	28%	10%	37%
SKO	22	13	2	3	-31%	-25%	-65%	-32%
LDO	12	4	-	7	-20%	-2%	-100%	-24%
JP	203	111	77	12	26%	36%	34%	-33%
<b>Total</b>	<b>3,532</b>	<b>2,506</b>	<b>429</b>	<b>170</b>	<b>19%</b>	<b>23%</b>	<b>-4%</b>	<b>0%</b>

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

**PSO: Major beneficiary of rising FO demand**

With the recent long-term fuel agreements with PEPCO and company's commitment to provide monthly 35000 tons of FO to power plants during peak season, we expect FO sales of the company to reach at 9mn tons in FY10 compared to 6.9mn tons in FY09. Moreover, resolution of the circular debt will improve liquidity in the energy chain and hence improve OMCs ability to pile oil stocks. In sum, higher FO demand and resolution of circular debt are the two major earnings driver for PSO as also highlighted in our recent short report "PSO: Power play" issued on Sep 04, 2009. We maintain our 'Buy' rating on PSO at current levels.

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Pakistan State Oil	
<b>Market Price:</b> Rs330.75	<b>Kats Code:</b> PSO
<b>Market Cap:</b> Rs56.7bn (US\$683mn)	<b>Bloomberg Code:</b> PSO PA
<b>1-yrs Avg. Daily Volume:</b> 1.5mn shares, Rs305mn (US\$3.7mn)	<b>Reuters Code:</b> PSO.KA
<b>1-year High/Low:</b> Rs330.75/96.00	

**Also in focus****Key FoDP meeting today**

A summit level meeting of the friends of Pakistan is expected to take place on the sidelines of the UN General Assembly session in New York today. The meeting is to be chaired jointly by President Asif Ali Zardari, Barack Obama and UK Prime Minister Gordon Brown. This meeting is of immense importance as Pakistan will seek to recommit the pledges made earlier and also look for new pledges in different sectors especially energy and textiles. We believe the meeting will inure further commitment towards Pakistan and appreciate the country's role in the war of terror.

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