

January 13, 2012

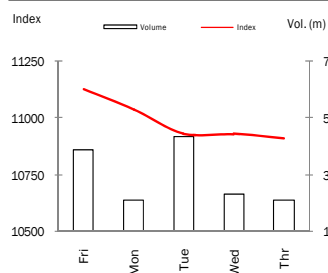
	Wed, Jan 11	Thu, Jan 12
KSE-100 Index	10,930.49	10,909.12
KSE-30 Index	10,068.49	10,060.65
Shares Traded (mn)	23	21
Value Traded - PKRm	1,232	953
Market Cap. - PKRbn	2,845	2,840

Market Overview

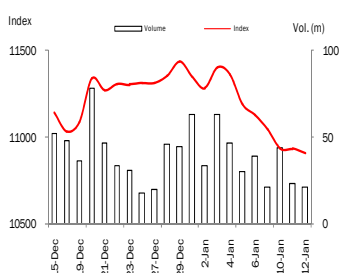
The market was dull and range bound on Thursday. The KSE-100 Index shed 21 points to end the day at 10,909 on the back of 21m shares traded. Most of the activity was concentrated in the Chemicals, Banks, Electricity and Financial services sectors. The top gainers according to Index points were FFC, MCB and ABL; likewise the top decliners were OGDC, NBP and DREL.

We recommend investors to hold onto their positions.

Market-Last 5 Days



Market-Last One Month



OIL & GAS (OMCs)

A foot in the door!

Valuation & Stance

Stock	Closing price 30-Dec-11	Target Price	Upside/ (downside) potential	EPS FY12E	PE x FY12E	Stance
APL	412.5	481.10	16.6%	64.16	6.43	Accumulate
PSO	227.21	404.39	78.0%	61.86*	3.67	Strong Buy

Source: TSL Research, *Recurring EPS

The OMC sector witnessed a whopping 246% YoY growth for the 1QFY12 to post a PAT of PKR 3,300m against the corresponding period's net earning of PKR 953m mainly on the back of mounting bottom line of PSO, which had risen from PKR 810m (EPS: PKR 4.72) in 1QFY11 to PKR 2,487m (EPS: PKR 14.50), augmenting by 207% YoY. For the same period, other contributors were; Attock Petroleum witnessing a 25% jump in its bottom line for the quarter as compared to Shell, which despite remaining in the red zone improved by 61% YoY.

Corporate Office:

6th floor, Progressive Plaza,
 Beaumont Road, Karachi
 UAN: +92 (21) 111-828-787
 Fax: +92 (21) 3568-6279
 Email: research@taurus.com.pk
 URL: <http://www.taurus.com.pk>

Dealing Room Ph:

+92 (21) 35682690
 35662817, 35682559,
 35681420

POL Products

Production & Consumption

Pakistan being an energy deficit country, its domestic market is characterized by underproduction and overconsumption. Moreover, from FY07 to FY11, POL products consumption rose at an average of 4.8%. Whereas, domestic production actually declined by an average rate of 3.8%. To bridge this deficit of demand supply gap, imports have risen sharply by 50% YoY to 12.4m tons as of FY11 from a level of 8.3m tons in FY07.

In money terms, the import bill for POL products increased by 26% YoY to register at \$8.3bn in FY11 against the corresponding period's bill of \$6.6bn. The regional oil prices for the outgoing fiscal year stood at US\$

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World Indices	Jan 12, 2012	
Markets at Close	Index	Chg%
DJIA	12,471.00	0.17
Nasdaq	2,724.70	0.51
S&P	1,295.50	0.23
FTSE	5,662.42	(0.15)
DAX	6,179.21	0.44
CAC-40	3,199.98	(0.15)
Nikkei	8,385.59	(0.74)
H.Seng	19,095.40	(0.30)

120/barrel as unrest in the Middle East intensified during April 2011.

Going forward, on the back of gas shortage in the future, consumers in the Transport sector would switch to HSD and MS; resulting in higher sales for the OMC sector with major chunk being swallowed by PSO alone. Furthermore, for energy products we expect HOBC and FO to grow at a 4-Year historical CAGR (FY07-FY11) of 8% and 5% respectively. Whereas, Asphalt and Lubes & Greases are expected to decline at a rate of 20% and 1% respectively based on a 4-Year historical CAGR (FY07-FY11). Changes in the pricing mechanism for POL products as notified by OGRA are effective as of FY12. Consequently, the prices of MS, HOBC, LDO and aviation fuel have been deregulated at the refinery and depot level subject to a ceiling of import parity price plus incidentals for ex-refinery prices. However, prices of HSD are being determined by OGRA at the refinery level, whereas, price for kerosene is announced both at the refinery and depot level.

Circular debt

Bitter Pill to Swallow!

The dilemma of Circular Debt exacerbated in FY2011 despite the impact of higher oil prices on electricity subsidies being curtailed through adjusting the fuel cost variations to the consumers directly from August 2010. To fuel the fire, generation costs rose theatrically due to higher utilization of furnace oil in the generation mix owing to shortage of gas and low water availability during the winter season. Resultantly, in the milieu of pitiable revenue collection and operational inefficiencies in distribution companies, circular debt has augmented with severe implication for downstream energy sector companies.

Stance on the Sector

We have revised our fair value for the OMC sector and based on DCF method of valuation, our respective fair values for the OMC scrips are as follows:

- **PSO - PKR 404.39 – Strong Buy**
- **APL - PKR 481.10 - Accumulate**

For further reading, please refer to our earlier document “Pakistan Outlook 2012” available on our website.

Saad Najaf Ali Sayed
Saad@taurus.com.pk
Ext: 203

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News Snapshot

Capital market, corporate sector boost: FBR urged to consider new taxation proposals: Securities and Exchange Commission of Pakistan has proposed the Federal Board of Revenue to consider new taxation proposals for development of capital market and corporate sector. This includes income-based Capital Gain Tax on stock market against the existing transaction based fixed rate of CGT, major reduction in corporate tax rate and increase in the tax rates on the National Saving Schemes (NSS). (BR)

Attracting investment: Govt considering amnesty for stock brokers: The government is considering offering an amnesty scheme to attract investment in the dwindling stock market by allowing tax evaders to declare their hidden incomes by paying a nominal investment tax before investing the money. (Express Tribune)

GSP Plus status to Pakistan: UK supports EC's Proposal: UK State Minister for Trade and Investment Lord Green on Thursday said that the United Kingdom strongly supported the European Commission's proposal to extend GSP Plus status to Pakistan. (BR)

Foreign investors repatriate \$450 million in five months: The repatriation of profit and dividend by foreign investors is increasing gradually and some \$450 million were sent abroad during the first five months of the current fiscal year. (BR)

Energy crisis: Govt mulling drastic changes to power tariff structure: For the second year in a row, the government will miss its plan to curb subsidy expenditure by a long shot: power subsidies are expected to reach Rs350 billion, about 138% higher than the budgeted Rs147 billion. The government will now try to phase out all subsidies except for the 'lifeline' consumers. (Express Tribune)

Forex reserves ease to \$16.90bn: Pakistan's foreign exchange reserves eased to \$16.901 billion by the week ended on January 5 against \$16.917 billion a week ago, the State Bank of Pakistan (SBP) said on Thursday. (The News)

Settlement of GST on tractors assured: Federal Minister for Industries Chaudhry Pervez Elahi has assured the vendors and tractor makers of resolving the lingering issue of 16 per cent general sales tax as early as possible. (Dawn)