

morning shout

Pakistan Daily Notes

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APL: Acquisition to boost growth outlook

- We favorably view APL's plans to acquire 100% stake in Admore Gas. Combination of synergies, growing size and strategic advantage will allow future acquisition to boost APL growth strategy and provide strong acquisition advantages, in our view.
- We reiterate our Buy rating on APL with a PO of PRs409.6/sh. Trading at FY11E P/E of 5.1x (excluding acquisition), we think the market is still under-appreciating potential value accretion to APL from acquisition.
- We reiterate our view that M&A and emergence of integrated model (oil refining and oil marketing) are two key future trends in the downstream business. We expect industry consolidation to continue.

Acquisition to bolster growth outlook

We favorably view APL's plans to acquire 100% stake in Admore Gas, a small standalone oil marketing company, with sizeable presence in Pakistan's northern region. We see potential acquisition cost of PRs2.2-3.4bn, to be funded by surplus cash. Combination of synergies, growing size and strategic advantage will allow future acquisition to bolster APL growth strategy and provide strong acquisition advantages, in our view. We reiterate our Buy rating on APL with a PO of PRs409.6/sh. Trading at FY11E P/E of 5.1x (excluding acquisition), we think the market is still under-appreciating potential value accretion to APL from acquisition.

Group synergies can unlock acquisition value

The potential acquisition would strengthen APL's current strategy of focusing on high-margin, retail business. While headline market share gain will be 0.7% (cumulative 7.6%), key advantage is APL's ability to leverage control of two strategically-located group refineries by ensuring supplies to newly acquired outlets network, thereby boosting otherwise extremely low sales/site of Admore. Admore's throughput/site was ~1,100litre/day/site in 2008 which is 1/5th of industry average. While APL will be required to make requisite investment in signage/machines equipment to modernize the outlets, we believe overall return to incremental cap-ex will be attractive. We think APL will undertake rationalization of outlets post acquisition by closing down unfeasible outlets. With expanded outlet network, APL will be able to boost its position in lube oil. Furthermore, Admore's storage capacity will facilitate APL's plans to gear into import /export trade business.

PRs2.2-3.4bn acquisition cost

In absence of latest financial numbers for Admore, we have worked on acquisition cost based on per outlet cost. Our rough estimates yield a pay back period of 2.6-15 years based on per outlet cost of PRs3-6mn. In our analysis we have assumed an additional liability of PRs1bn which industry sources have mentioned would be part of the acquisition cost. Industry expects a payback period of 3-4 years which we believe is reasonable given the advantages to APL.

Integration and M&A themes taking a definite shape

While there are nine oil marketing companies, industry structure is still heavily skewed with top two companies enjoying 82% market share. We have earlier highlighted M&A and emergence of integrated model (oil refining and oil marketing) as two key future trends in downstream business (see page 52 in Rebounding Asset at a discount dated 28th Jan 2010). We think future deregulation of freight cost would necessitate emergence of integrated model. Small marketing companies will increasingly face difficult times due to standalone business model. We see at least four trends supporting M&A – (1) Likely survival of oligopolistic structure; (2) High capital requirement for retail station outlets and infrastructure investment attaining a meaningful threshold; (3) Lack of sustainable and profitable niche areas and (4) Future deregulation of freight cost, which would require economies of scale to avoid additional cost.

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Current Price PRs357.62
Price Objective PRs409.60

KATS APL
Reuters APL.KA
Bloomberg APL PA

Market Cap
PRs 20,599m (US\$242m)

Shares in Issue
57.6mn

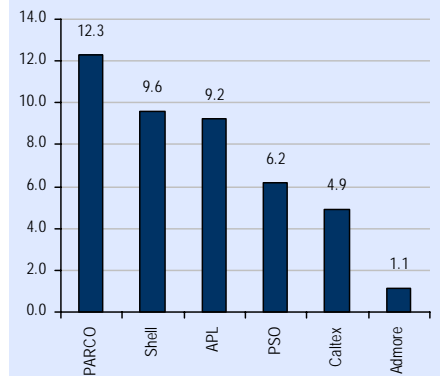
3m average daily volume
98,700 shares

12-month High/Low
PRs401.07 / 235.24

Stock Performance

	1M	3M	12M
Absolute%	-0.6	10.7	44.6
Rel Index	-0.1	1.3	-27.4
Abs. (PRs)	-2.1	34.5	110.3

Throughput/site(000litre/day/site)



Source: OCAC

Morning News

► **Fourth IMF tranche in peril: Tarin's successor not chosen yet (BR)**
 Reportedly, the 4th tranche of IMF, US\$1.2bn, may come under jeopardy if President Asif Zardari and Prime Minister Yousuf Raza Gilani fail to appoint a replacement for Mr. Shaukat Tarin despite a stern warning from the Ministry of Finance. Officials in Ministry of Finance expressed their concerns that the name of Tarin's successor needs to be incorporated in the review papers which are to be circulated to the Directors of the Fund for the meeting on 24th of March to obtain approval for the release of US\$1.2bn. Earlier, the name of Mr. Nasim Beg was rumored to be almost final; however, the Prime Minister is reportedly hesitant to appoint a technocrat, as he is of the view that a technocrat Advisor on Finance would again face difficulties in coordination with the Cabinet and the Parliament.

Technical View

Aiyaz M. Hassan

First support 9,680 points, second support 9,609 points; first resistance 9,795 points, second resistance 9,866 points

The index opened on a positive note and maintained a steady uptrend to close well into the green. Volumes showed an improvement of 10.87% and stood at 174.31 mln. The index managed to close above its 30-DMA and 50-DMA, which suggests that the uptrend is likely to continue. However, the alarming fact is that the 30-DMA is on the verge of cutting the 50-DMA from above, which is bearish as seen in the recent past.

The Stochastic Oscillator continues to rise is now rapidly approaching the overbought region. Moreover, the 14-day RSI is approaching its resistance trendline as well (blue line, lower portion). This suggests that there is limited upside in the index. As a composite, most of the index's key drivers have either become overbought or have created bearish formations.

The first support is at 9,680 points and the second support is at 9,609 points. The first resistance is at 9,795 points and the second resistance is at 9,866 points.

KSE-100 Intra-day Movement



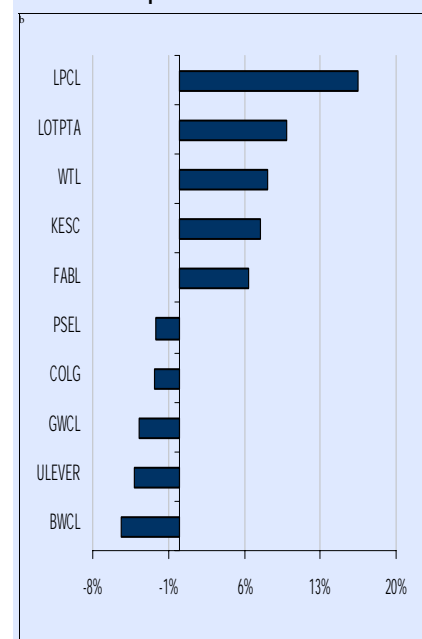
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$mn
KSE30	10,210.88	1.08%	54.79
KSE100	9,740.19	1.18%	63.28
KSE All Share	6,885.50	1.14%	66.00
NBP	93.05	0.06%	7.34
LUCK	76.35	3.91%	5.62
AICL	124.60	1.86%	5.04
MCB	218.50	0.96%	4.21
POL	237.70	0.07%	3.84

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,774.70	0.00	0.00
Shanghai Composite	3,053.23	22.17	0.73
Hang Seng	21,196.87	408.90	1.97
BSE 30	17,102.60	108.11	0.64
Jakarta Composite	2,626.45	47.68	1.85
KLSE Composite	1,324.22	24.44	1.88
Nikkei 225	10,585.92	216.96	2.09
NZSE 50	3,222.82	8.17	0.25
Straits Times	2,834.57	44.28	1.59
Seoul Composite	1,660.04	25.47	1.56
Taiwan Weighted	7,762.27	96.01	1.25
KSE-100 Index	9,740.19	113.90	1.18

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,492.25	36.47	1.49
BEL-20	2,600.83	-10.20	-0.39
CAC 40	3,903.54	-6.88	-0.18
DAX	5,875.91	-1.45	-0.02
AEX General	338.17	-0.51	-0.15
Swiss Market	6,851.20	3.42	0.05
FTSE 100	5,606.72	6.96	0.12
American Markets			
Dow Jones Ind. Average	10,552.52	-13.68	-0.13
NASDAQ Composite	2,332.21	5.86	0.25
NASDAQ -100	1,890.89	2.33	0.12
S&P 500 Index, RTH	1,138.50	-0.19	-0.02

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	4.2	4.2	31.8	63.8	NA	03-08
India	151.1	705.3	705.3	939.0	151.3%	03-04
Indonesia	58.9	58.9	147.2	-16.2	90.6%	03-08
Japan	Na	646.5	2970.4	21,110.1	187.0%	02-26
Philippines	10.1	10.1	6.4	128.1	287.6%	03-08
South Korea	450.8	450.8	1,138.4	1,702.8	325.5%	03-08
Taiwan	469.0	469.0	1,126.7	-1747.3	7.6%	03-05
Thailand	91.1	91.1	413.4	351.0	224.1%	03-08
Vietnam	1.5	1.5	-6.9	51.2	683.3%	03-08

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.40	12.41	-0.01
12-M T-Bill (Average)	12.26	12.25	0.01
10- year PIB (Average)	12.63	12.63	0.00
PkR/ US\$	84.69	84.72	-0.03

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	81.87	0.37	0.45
Gold	1,122.05	-12.25	-1.08
CRB Index (Mar 4 th)	429.89	0.00	0.00

Source: Bloomberg

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