

August 05, 2010

## Pakistan Market

## PPL: FY10E earnings preview

MORNING BRIEFING



KSE100 Index: Closing 10390.27 ↑ (+1.63)

The board of Pakistan Petroleum Limited (PPL) will meet on August 06, 2010 to announce the company's FY10 financial result. We expect the company to post an EPS of Rs24.6 per share versus Rs27.8 in the same period last year, depicting a YoY decline of 12% mainly due to downward revision in gas wellhead prices for 1HFY10. Along with the result, we expect PPL to announce a final cash dividend in the range of Rs7-8 per share (full year DPS to Rs11-12). Moreover, we believe a 10% bonus issue is also on the cards as well. At current levels, we maintain our 'Buy' call on PPL.

## FY10 EPS of Rs24.6 likely

Compared to FY09 earnings of Rs27.7bn (EPS: Rs27.8), PPL is likely to post net profit of Rs24.5bn (EPS: Rs24.6) for FY10. Despite new production flows from Manzalai, Hala, Latif and Gambat, the decline is mainly led by lower gas wellhead prices recorded in FY10. The average wellhead prices of Sui and Kandhkot (contributing ~70% of PPL's gas production) in FY10 fell to Rs129.8 per mmbtu, down 16%YoY.

## Result preview - PPL

(Rs mn)	FY10E	FY09A	Δ%
Sales	60,239	61,580	-2%
Field expenditure	16,819	13,161	28%
Royalty	7,054	7,463	-5%
<b>Operating profit</b>	<b>36,366</b>	<b>40,956</b>	-11%
Other income	2,714	4,150	-35%
Finance cost	136	94	45%
Other expenses	2,501	3,103	-19%
<b>PBT</b>	<b>36,443</b>	<b>41,908</b>	-13%
Taxation	11,954	14,206	-16%
<b>PAT</b>	<b>24,489</b>	<b>27,703</b>	-12%
<b>EPS</b>	<b>24.6</b>	<b>27.8</b>	-12%

Source: JS Research

In addition, an expected 28%YoY rise in field expenditure to Rs16.8bn is also likely to dampen the bottom line. The increase in expenditure is mainly driven by one off exploration

cost recorded for dry offshore well (Shark-1) in 3QFY10 and work-over cost for Sui in 2QFY10.

## Recommendation: 'Buy' maintained

With new production flows coming in and strong recovery in gas wellhead prices in 2HFY10 (further expected to improve in the upcoming revision for the 1HFY11), we believe PPL is well set to post a significant earnings growth of over 30% in FY11. At current levels, the stock is trading at FY11F PE of 6.8x, offering FY10E dividend yield of 5.8%. Hence, we reiterate our 'Buy' stance on the stock.

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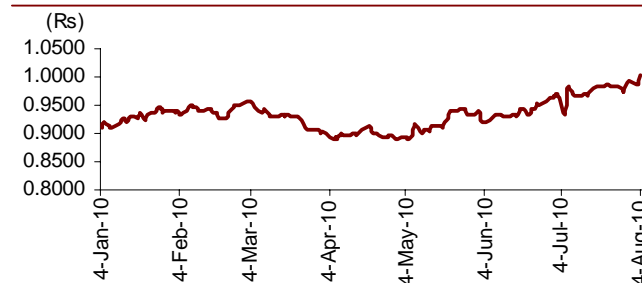
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## Also in focus

## Japanese Yen at its highest against Pak Rupee

The Japanese Yen has gained against the US dollar recently owing to weaker than expected US economic data and talks of further quantitative easing measures to be taken by the FED. Similarly, Yen has gained 4% against Pak Rupee since the start of July 2010, and is currently trading at its highest level of Rs1.0029. We believe, the recent appreciation of Yen, will bode negative for the margins of the local auto assemblers, particularly in 1QFY11, due to their heavy reliance on imported parts from Japan. Moreover, with the decision pending in the ECC over the liberalization of import of automobiles, ability to increase prices may be limited for now. We currently have a 'Hold' stance on both Indus Motor (INDU) and Pak Suzuki (PSMC).

## JPY vs PKR since Jan 2010



Source: SBP

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