

July 05, 2010

Pakistan Market**PPL: Company update/'Buy' maintained****MORNING BRIEFING**

KSE100 Index: Closing 9697.65 ↓ (-33.34)

We rank Pakistan Petroleum Limited (PPL) as our top pick in the E&P sector on the back of stock's compelling valuation, mainly owing to new production flows from Tal, Hala, Latif and Nashpa fields. In addition, the company's balanced exploration strategy and its focus on local and international JVs offer potential for new hydrocarbon discoveries and reserves addition, going forward. The stock is trading at an attractive FY11F PE and a dividend yield of 5.4x and 12%, respectively, hence we maintain our 'Buy' call on PPL.

Development plans largely on track

Apart from new hydrocarbon flows from Manzalai which commenced in 1HFY10, new production flows from Mamikhel and Maramzai are also expected to initiate during 1HFY11. We expect the combined production flows from the two fields to stand around 4,300bpd of oil and 85mmcf of gas. Based on our estimates, this would improve PPL's annualized earnings by Rs2.4 per share. Production flows from Latif and Gambat have already lifted PPL's production by around 15mmcf of gas (stake adjusted). Moreover, the company management expects to achieve production flows of around 1,200bpd oil and 15mmcf of gas from Hala in FY11. Going forward, we foresee further production addition once Qadirpur compression project is completed (expected Sep 2010) and new gas flows from recent discovery of Latif North begin. As per the initial tests, gas flow from the field stood at 44.7mmcf.

Wellhead prices set to improve further

Apart from the expected production enhancements, PPL is also a key beneficiary of the upcoming wellhead price revision, as we expect Sui and Kandhkot prices to increase by around 6% from the current wellhead price of Rs143.9 per mmbtu. With the two fields having contribution of over 70% in PPL's gas production; the upcoming revision is likely to improve PPL's 1HFY11 earnings by Rs0.6 per share. Further, the wellhead price of Sawan (3rd biggest contributor to PPL's

gas production) is also likely to rise by 4% in the upcoming revision.

Expected Revision In Gas Well Head Prices

Field	Major Stake Holders	2HFY10	1HFY11E	Δ%
Prices in US\$ per mmbtu				
Mela	OGDC(57%), PPL(26%)	2.66	2.66	0%
Miano	OGDC(52%), PPL (15%)	3.50	3.60	4%
Sawan	PPL(26%)	3.50	3.60	4%
Manzalai	OGDC(28%), PPL(28%), POL(21%)	2.73	2.73	0%
Prices in Rs per mmbtu				
Adhi	OGDC(50%), PPL(39%)	124.0	126.9	2%
Kandhkot	PPL(100%)	143.9	151.8	6%
Sui	PPL(100%)	143.9	151.8	6%

Source: OGRA, JS Research

Recommendation: 'Buy' maintained

With a 35% earnings growth likely in FY11, PPL is currently trading at an FY11F PE and dividend yield of 5.4x and 12%, respectively hence we continue to rate PPL as our top pick in the sector and maintain our 'Buy' stance on the stock.

E&P sector - Key Statistics

(FY11F)	PE (x)	Div. yield	Target Price	Stance
PPL	5.4	12.0%	236	Buy
POL	5.2	11.4%	285	Buy
OGDC	9.3	7.4%	129	Hold

Source: JS Research

umer.ayaz@js.com

92 (21) 111-574-111 (ext. 3103)

Also in focus**PSMC passes through increase in taxes**

Following an increase in General Sales Tax (GST) by 1ppt and imposition of 10% Federal Excise Duty (FED) on car air conditioners, Pak Suzuki (PSMC) has raised prices across its product line within a range of Rs5,000-15,000. The increase in price is not likely to have a major affect on the volumetric sales and should preserve the company's margins going forward. We currently have a 'Hold' stance on the scrip.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800163
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS