

January 06, 2010
Pakistan Market

Gas wellhead prices to rebound in 2HFY10

MORNING BRIEFING



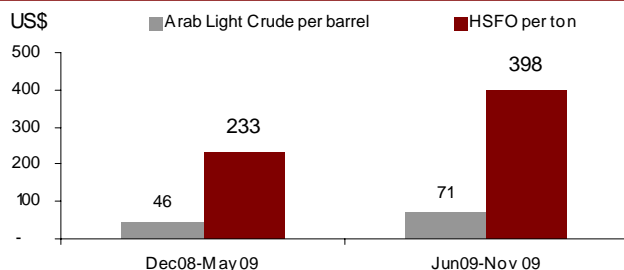
KSE100 Index: Closing 9657.38 ↑ (+219.53)

The last of the semiannual wellhead price revision for FY10 is expected to be announced in the next few weeks. This revision would be based on Arab Light Crude and HSFO prices in the period of Jun-Nov FY10, during which fuel prices witnessed a rebound. Based on this, we expect wellhead prices to rise up to 23%.

54% and 70% HoH rise in crude and HSFO prices

Wellhead gas prices in the country are revised in January and July every year, depending on the average Arab Light crude and HSFO prices during the first six months of the preceding seven months period. In order to forecast the forthcoming revision, we have taken average Arab Light and HSFO prices for the period Jun-Nov FY10. The average Arab Light price during this period stood at US\$71 per barrel versus US\$46 per barrel in the previous six months, depicting a growth of 54%. Similarly, HSFO prices also soared by 70% to US\$399 per ton in the same period.

Graph: Avg. Arab Light & HSFO prices Comparison



Source: JS Research, Reuters

3% decline in Rs/US\$ parity to improve benefit

Apart from high oil prices, Rupee depreciated by around 3% against US dollar during the period. This decline in Rupee exchange rate would enhance the returns of the E&P companies. Going forward, if the pressure on the local currency remains, the E&P companies would continue to reap

additional benefits in Rupee terms on the back of dollar denominated revenues.

PPL to emerge as key beneficiary

We anticipate PPL to be the prime beneficiary of upcoming wellhead price revision on the back of around 23% expected rise in wellhead prices of Sui and Kandhkot. The two fields contribute around 80% gas production of the company. Moreover, wellhead price of Sawan (third biggest contributor to company's gas production) is also expected to improve by 20%.

Table: Expected Revision in Gas Well Head Prices

Field	Major Stake Holders	1HFY10	2HFY10E	Δ%
Prices in US\$ per mmbtu				
Mela	OGDC(57%), PPL(26%)	2.7	2.7	0%
Miano	OGDC(52%), PPL (15%)	2.9	3.5	20%
Paiwali	POL(83%)	2.9	3.5	19%
Pindori	OGDC(50%), POL(35%)	3.1	3.7	19%
Sawan	PPL(26%)	2.9	3.5	20%
Turkwal	POL(67%)	3.1	3.7	19%
Uch	OGDC(100%)	3.9	3.9	0%
Manzalai	OGDC(28%), PPL(28%), POL(21%)	2.7	2.7	0%
Prices in Rs per mmbtu				
Adhi	OGDC(50%), PPL(39%)	119.7	123.1	3%
Dakhni	OGDC(100%)	120.1	123.5	3%
Kandhkot	PPL(100%)	115.7	142.6	23%
Sui	PPL(100%)	115.7	142.6	23%

Source: OGRA, JS Research

Other uncapped fields to witness 20% rise

Other than Sui and Kandhkot, gas fields governed under the Petroleum Policy 1997 are also likely to register a growth in the vicinity of 20% versus the existing wellhead prices. Pariwali, Pindori, Turkwal and Miano are the key fields operating under 1997 policy.

On the contrary, fields governed under the policy of 2001 like Mazalai, Makori and Mela would not be subject to revision in

wellhead prices due to US\$36 per barrel cap on their pricing formula.

E&P Sector: 'Over-weight' maintained

At current levels, E&P sector is trading at FY10E and FY11F PE of 8.8x and 7.4x, respectively. We maintain our 'Over-weight' stance on the E&P sector with 'Buy' recommendation on PPL and POL.

umer.ayaz@js.com

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

Also in focus

Oil price above US\$81 per barrel

World oil prices are currently hovering around US\$81 per barrel, compared to \$71.9 per barrel in the beginning of the current fiscal year. The increase has mainly been on the back of high demand for heating fuel in the cold weather, and expanding manufacturing activities in US and China. We believe, the spike in oil prices would be negative for the economy as a whole it would nevertheless prove to be beneficial for the E&P and Oil Marketing companies.

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) 32800165

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

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