JS Research

April 07, 2010

Pakistan Market

PPL: Positives all around

MORNING BRIEFING

KSE100 Index: Closing 10419.82 ↓ (-28.02)

Renewed investor interest has been witnessed in PPL during the last few trading sessions, as the average stock trading volumes have rebounded since last Tuesday on the back of stocks attractive valuation and near term triggers including recent production enhancements, expected rise in wellhead prices and a recent discovery in Latif block. In addition recently increasing foreign interest in PPL owing to its attractive yield and sizable float could further stimulate stock price appreciation in the coming months. Trading at FY11F PE and dividend yield of 6.2x and 10.6%, we maintain our 'Buy' stance on the stock.

Plenty of near term triggers

Apart from new hydrocarbon flows from Manzalalai and Hala which commenced in 1HFY10, new production flows from Mamikhel and Maramzai are also expected to commence during the current quarter. We expect the combined production flow from the two fields to stand around 4,300bpd oil and 85mmcfd gas. Based on our estimates, this would improve PPL's annualized earnings by Rs2.4 per share. However, the complete impact would be visible from FY11 and beyond.

In addition to the expected production enhancements, PPL is also a key beneficiary of the upcoming wellhead price revision, as we expect Sui and Kandhkot prices to improve by around 20% compared to the existing wellhead price of Rs115.7 per mmbtu. With a contribution of around 75% in company's gas production, the upcoming revision is likely to improve PPL's 2HFY10 earnings by Rs1.5 per share.

Discovery announced at Latif-2

In an interview with Bloomberg yesterday, PPL's MD announced a discovery at Latif Block. The venture is a JV between PPL, OMV and ENI each sharing 33.3% post discovery stake in the block. This is the second discovery in the block after latif-1 (discovered in FY07) from where current gas production stands in the vicinity of 30mmcfd of gas.

Foreign interest could lead price rally

After continued aggressive buying in OGDC, it appears that foreign interest is shifting towards PPL as OGDC's valuation now seems stretched (FY11F PE 8.6x). With their interest in oil sector intact, foreign investors are now compelled to accumulate PPL mainly due to stock's sizable float, attractive valuations and ample near term triggers. This could lead to a similar kind of stock rally recently witnessed in OGDC.

Recommendation: 'Buy' maintained

PPL is currently trading at FY11F PE and dividend yield of 6.2x and 10.6%, hence we continue to rate PPL as our top pick in the sector, maintaining our 'Buy' stance on the stock.

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Also in focus

Fiscal deficit could exceed 6%

The Finance Minister has hinted that delays in foreign inflows related to expenditures sustained in the war on terror, can cause Pakistan's fiscal deficit to exceed 6%- well above the SBP's revised target of 5.0-5.5%. However, during the recent US-Pak strategic dialogue, the US has assured that the country would soon receive the US$2bn Coalition Support Fund. Moreover, expected disbursement of IMF's fifth tranche of US$1.2bn (which includes a portion for budgetary support) should help the deficit to remain in check, in our view.

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