

May 07, 2010

Pakistan Market

POL: Company update / 'Buy' maintained

MORNING BRIEFING



KSE100 Index: Closing 10553.12 ↓ (-8.62)

Post an impressive quarterly result announcement and improved earnings outlook on the back of expected production enhancements from Tal, we have upgraded our FY10 and FY11 earnings estimates for POL. We believe, the company's renewed focus on the exploration front could offer further upside to our valuation in the long run. The stock is currently trading at FY11F PE of 6.0x, hence we maintain our 'Buy' call on the stock.

Tal Block: driving POL's growth

In 9MFY10, the company managed to post an impressive 19% profit growth predominantly led by improved production flows from Manzalai, post commissioning of the Central Processing Facility (CPF) in November 2009. Since then, POL's gas production has doubled to around 79mmcf and the oil production too has witnessed a 20% jump in volume since then. In addition to the improved top line, the exploration charges fell significantly by 56% to Rs870mn, due to absence of any major dry well cost reversal during the period. The company only accounted Rs366mn as reversals for Makori West during the second quarter.

The block has more to offer

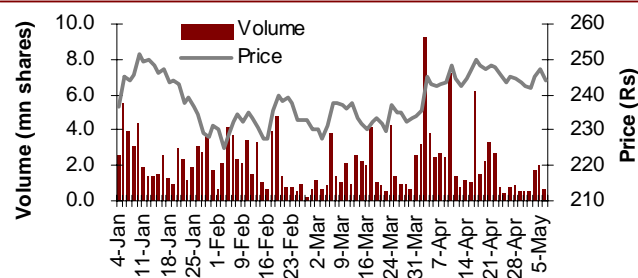
After Manzlaai CPF flows expected to increase to 300mmcf by end of FY10 and new oil and gas flows from Maramizi and Mamikhel likely to commence in 1HFY11, we are expecting further upside in POL's production volumes. With relatively lower production volatility of the existing assets and assuming the new flows from Tal to commence as per plan, POL could post earnings growth of around 25% in FY11. In addition, the company also plans to drill 1 production and 1 development well in Makori during 2010. Further clarity on the development and potential flows from the field could compel us to further upgrade our long term earnings estimates for POL.

What's likely in the final quarter?

Post reviewing the fairly predictable third quarter results, we foresee no major surprises in the final quarter and expect

those to be similar to the 3rd quarter's. However, a key risk to our assumption is the drilling test result of Domail-1 well in Ikhlas Block where POL holds a production stake of 80%. Currently the well is in testing phase and if the well turns out to be a dry hole, POL would record exploration expense worth ~Rs800mn in its 4QFY10 results which would deflate company's profits by around Rs2.1 per share.

POL price volume performance



Source: KSE

Recommendation: 'Buy' maintained

Based on yesterday's closing, POL is trading at an attractive FY11F PE of 6.0x and offers FY10E dividend yield of 7.8%. We maintain our 'Buy' call on the stock.

POL - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	32.3	40.9	48.6
PE (x)	7.6	6.0	5.0
Div. yield (%)	7.8%	10.0%	11.9%
ROE (%)	26%	29%	31%

Source: JS Research

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Also in focus

Budget FY11 expected to be announced on Jun 5

While talking to media personnel, Advisor to PM on finance, Dr Abdul Hafeez Sheikh said that the budget for next fiscal year is expected to be presented to the parliament on June 5, 2010. According to reports, tentative dates for meeting of the Annual Planning Committee are May 13 and May 14, while National Economic Council would meet on May 23 to finalize the targets for the next fiscal year (Jul-Jun).

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