

February 08, 2010

Pakistan Market

OGDC: Qadirpur has more to offer

MORNING BRIEFING



KSE100 Index: Closing 9769.73 ↑ (+142.10)

Last week, OGRA revised upward the provisional wellhead price of Qadirpur field by up to 32% for period ranging Jan 08 to Dec 09. After discussion with the company's management, we believe the revision mainly reflects Rupee depreciation for the respective periods. Post incorporating the recently notified provisional wellhead price of Qadirpur; our earnings estimates for OGDC have been upgraded with 7% rise in stock's target price to 126 per share. While the pricing revision is a positive development, we believe, the long pending issue of Qadirpur gas pricing discount issue is yet to be resolved which could prove to be a significant trigger for OGDC's valuation. Hence at these levels, we recommend our investors to 'Accumulate' the stock as it also offers an attractive dividend yield of 7%.

Qadirpur; finally some progress on pricing

In a recent development over the long pending issue, OGRA recently has announced the revised provisional prices for the field. We believe, the upward revision in prices is mainly attributed to Rupee depreciation during the respective revision period and is applicable with retrospective effect. Based on our estimates, the revision would lead to a one time earnings benefit of Rs0.71 per share (for prior periods until FY09). This impact is likely to be adjusted against the opening retained earnings if the company decides to recognize the price change on a retrospective basis. Moving ahead, beginning FY10 & holding the new provisional wellhead price of Rs213.17 per mmbtu constant, our annual earnings estimates would be upgraded by Rs0.7-0.9 per share.

What if the issue is resolved completely?

As per FY09 company accounts, OGDC has already agreed a discount table with the relevant authorities for wellhead prices till US\$400 per ton, however, the formal notification of extension in discount table is still awaited. The final resolution of this pending issue could be a significant positive trigger for the company. Though, the international HSFO prices are currently hovering in the range of US\$600 per ton, the pricing

would remain capped at US\$400 per ton (as the discount slabs are worked out till US\$400 per ton). Since, it is difficult to estimate the discount level to be applied on HSFO price at US\$400 per ton level; we have performed valuation sensitivity at various discount levels.

Valuation Sensitivity of discount over capped HSFO price

Discount over capped price	Wellhead price (Rs per mmbtu)	Valuation (Rs/share)
50%	416.70	150
55%	375.10	145
60%	333.39	141
65%	291.72	136

Source: JS Research

Since the current provisional price of Rs213 per ton is at a 74% discount to the proposed capped price of US\$400 per ton, we believe the final pricing arrangement would offer a discount of 65% at the cap price – the most conservative scenario in our sensitivity. Even in that case, our target price would reach Rs136 per share (16% upside from last closing).

For more details please refer to our short report titled "OGDC: Qadirpur has more to offer".

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Also in focus**POL: 1HFY10 EPS of Rs13.2 likely**

The board of Pakistan Oilfields (POL) is meeting tomorrow to finalize company's 1HFY10 results. We expect the company to post PAT of Rs3.1bn (EPS; Rs 13.2 per share), decline of 19% YoY. The decline in earnings is mainly attributed to YoY decline in average crude and gas wellhead prices. However, commencement of additional oil and gas flows from Manzalai would somewhat support POL's revenues and hence its bottom line. On the other hand, we expect POL's exploration cost during 1HFY10 to stand around Rs630mn as the company is likely to record drilling cost of dry Makori-4 well in 2QFY10. Along with the results, we expect POL to announce interim cash dividend in the range Rs5-6 per share. Currently we maintain our 'Buy' stance on the stock.

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