

April 09, 2010

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

KSE100 Index: Closing 10533.57 ↑ (+10.56)

Clarity on uncertainty regarding Bela-1's write-off and production plans for Tal, consistently rising hydro carbon production and company's increased focus on exploration front enables us to rate POL amongst our favorite stocks in the E&P sector. With FY11F PE of 6.0x and dividend yield of 10.8%, we maintain our 'Buy' stance on the stock.

**Bela discovery eradicates write off risk**

Last month POL announced a small discovery at Bela-1 well in Meyal Block (POL's stake 100%). As per initial tests, hydrocarbon flow from the field stood at 54bpd oil and 3.12mmcf of gas leading to an annualized earnings impact of Rs0.6 per share for POL. The discovery was significant as it diminished investor fears regarding the possible booking of approximately Rs2.5bn as exploration expense in case of unsuccessful drilling from the field.

**More clarity on production estimates from TAL**

Post commissioning of the central processing facility at Manzalai in October 2009, MOL (Operator of TAL) has indicated the possibility of field's production to increase to around 300mmcf gas and 5,500 - 6,000bpd oil in late 2010 once further development wells come online. As per the latest PPIS production update, oil and gas production from the field is standing at around 4,495bpd and 259mmcf, respectively. In addition to this, the operator plans to drill a production and a development well in 2010 in Makori as declaration of commerciality has been submitted to the relevant authorities during 1QFY10.

In addition, MOL also expects new production flows from Mamikhel and Maramzai fields to commence production by mid 2010. Based on initial results, we anticipate new production flows from the two fields to stand in the vicinity of 4,300bpd oil and 85mmcf gas.

**Increased focus on exploration front**

At present, POL is drilling an exploratory well (Domail-1) at Ikhlas block where the company owns 80% post discovery

stake. Moreover, POL is also a JV partner in Margala and Margala North blocks (stake of 30% in each) where the JV operator (MOL) expects to drill one exploratory well in 2010, location of which has already been finalized.

**Recommendation: 'Buy' maintained**

Based on the recent production addition from Manzalai and strong earnings outlook, the stock offers an attractive valuation upside to the investors. The stock is currently trading at FY11F PE of 6.0x and offers attractive dividend yield of 10.8%, hence at these levels, we maintain our 'Buy' stance on the stock.

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**Also in focus****IMF meeting to discuss budget deficit**

A two member IMF team is set to meet the finance advisor along with other top officials to discuss concerns over the rising budget deficit. The IMF had set a deficit target of 4.9% of GDP previously which was raised to 5.1% later on grounds of additional expenditures incurred on account of security situation in the country. However, concern still remain whether the country would be able to meet the revised target as unforeseen expenditures on wheat procured last year are to push government costs higher. The officials are set to discuss a workable solution in this regard.

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