

December 10, 2009

**Pakistan Market****MORNING BRIEFING**
**OGDC: Qadirpur production loss claim; exaggerated** KSE100 Index: Closing 8905.43 ↑ (+61.47)

Today, a news item claimed that the country's third largest gas field, Qadirpur, "is on the brink of collapse" due to a delay in the installation of 16 compression plants. As per our discussion with OGDC's management, this assumption of a steep production loss seems exaggerated. At current levels, the stock is trading at a FY10E and a FY11F PE of 8.2x and 7.1x respectively, with a FY10E dividend yield of 9.4%. We maintain our stance of 'Hold' on OGDC.

### Interim Compression facility in progress

We can second the view, that there has definitely been a delay in installation of the compression facility due to litigation issues with China Petroleum Engineering which was suppose to complete the installation on the front end compression facility this year. However, according to the management, OGDC with the help of NR Petrotech and SNGPL is currently working to install an interim compression facility to maintain the gas flow from the field. The implementation of this project is expected to be completed by June 2010, after which the cumulative gas flow from the field, is expected to increase from 500mmcf (current level) to 650mmcf.

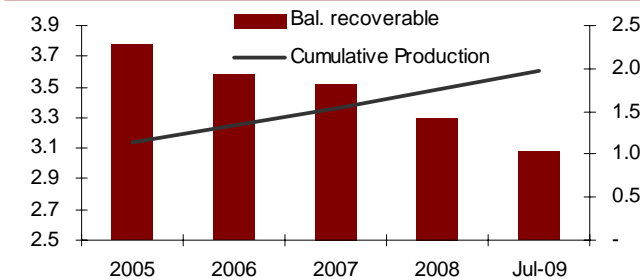
### No indication of reserve depletion

Critically reviewing the reserve estimates of the field (published in the Energy Year Book and on the PPIS website), there has been no downgrading of reserve estimates (apart from production adjustment) in the last 5 years. The fact suggests that there is no indication of depletion of field's reserves. Based on the current gas production level (500mmcf) and remaining gas reserve size of around 3.1tcf (as of July 2009) the field still has a reserve life of more than 16 years.

### Recommendation: 'Hold' maintained

Based on the above, we feel that the fears of a drastic decrease in production post July 2010 are overplayed. Hence at these levels, we maintain our 'Hold' stance on the stock as it trades at FY10E & FY11F PE of 8.2x and 7.1x, respectively.

**Graph: Qadirpur gas reserves (TCF)**



Source: Pakistan energy year book/PPIS

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### Also in focus

#### Moody's discusses Pakistan rating and outlook

Moody's Investor Service in its annual sovereign report has elaborated on its reasons for giving the country a B3 rating and a Stable outlook. According to the rating agency, the country's economic slowdown is bottoming out, external liquidity has improved and macro economic imbalances are reversing. However, issues in the electricity sector, the worsening security situation and low external competitiveness continue to act as major hurdles in economic progress.

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