

November 11, 2009

**Pakistan Market****POL: Attractive despite fall in 1QFY10 earnings****MORNING BRIEFING**

KSE100 Index: Closing 8762.40 ↓ (-174.08)

In its 1QFY10 financial results, Pakistan Oilfields Limited (POL) posted a decline of 37% in net profit on YoY basis. This decline in earnings was primarily on the back of low oil and gas prices – down 40% & 15%, respectively in the period compared to the corresponding period last year. Despite this recent fall in earnings, we continue to like the stock mainly on the back of near term production triggers from Tal Block and expected upward revision in gas wellhead prices in 2HFY10.

**Top line fell by 35% in 1QFY10**

POL's net sales during 1QFY10 fell by 35% to around Rs3.2bn primarily due to 40% and 15%YoY decline in oil and gas wellhead prices respectively. Moreover, lower oil and gas production from some key fields such as Pindori, Pariwali and Makori, further squeezed company's top line. POL's oil production in the first quarter averaged at 3,593bpd (down 13%) and gas production stood at 35.8 mmcf (down 11%YoY).

Exploration expense declined by massive 79% due to no major seismic acquisition and no drilling failure during the period. In addition, financial charges fell by 69% to Rs98 mn due to negligible exchange loss when compared to the corresponding period last year. These two factors, though somewhat supported the bottom line but were not enough to completely mitigate the impact of low hydrocarbon price.

**Near term production flows from Tal**

With recent Maramzi discovery in Tal and commencement of Manzalai Central Processing Facility, the block has kept investor interest alive in the stock. As per PPIS data, current oil and gas production from Manzalai is standing at 1,362bpd and 92mmcf respectively. This production is expected to reach 4,000bpd and 200mmcf by Dec 09. In addition, hydrocarbon production from Mamikhel field is also expected to commence in 4QFY10. Similarly oil and gas production from Maramzai is also likely to commence in early FY11.

**Upward revision in gas wellhead prices in 2HFY10**

Looking at Arab Light price trend and continued Rupee depreciation against US\$, we anticipate gas wellhead prices to be revised upward in the next price revision. This would result in improving E&P sector's 2HFY10 earnings. So far during Jun 09 to date, average Arab light prices have stood at US\$71/barrel versus US\$46/barrel in Dec 08 to May 09 period, registering an increase of 54%.

**Recommendation: 'Buy' maintained**

The stock is trading at FY10E and FY11F PE of 7.5x and 5.1x, respectively and also offers FY10 dividend yield of 8%. We maintain our 'Buy' stance on the stock at current levels.

umer.ayaz@js.com  
92 (21) 111-574-111 (ext. 3103)

Pakistan Oilfields Limited	
<b>Market Price:</b> Rs206.20	<b>Kats Code:</b> POL
<b>Market Cap:</b> Rs48.8bn (US\$585mn)	<b>Bloomberg Code:</b> POL PA
<b>1-yrs Avg. Daily Volume:</b> 3.8mn shares, Rs642mn (US\$7.7mn)	<b>Reuters Code:</b> PKOL.KA
<b>1-year High/Low:</b> Rs228.91/81.53	

**Also in focus****October CPI arrives at 8.87%**

CPI for the month of October arrived at 8.87% - moving into single digits for the first time since December 2007. This will set the tone for the next monetary policy statement expected to be announced later this month. Further, YoY inflation is now expected to take a slight u turn, as a key reason for the declining inflation –base effect, would not be present from next month onwards.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 32799005  
Fax: +92 (21) 32800163  
js.research@js.com

**Equity Sales:**

Tel: +92 (21) 32799513  
Fax: +92 (21) 32800166  
junaid.iqbal@js.com

**Fixed Income Sales:**

Tel: +92 (21) 32799541-44  
Fax: +92 (21) 32800165  
tariq.usman@js.com

**Corporate Finance:**

Tel: +92 (21) 32799005  
Fax: +92 (21) 22800163  
azhar.iqbal@js.com

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