

August 12, 2009

Pakistan Market**OGDC: FY09 result preview****MORNING BRIEFING**

KSE100 Index: Closing 8044.50 ↓ (-37.56)

OGDC will announce its full year FY09 earnings on August 13, 2009. We expect the company to post cumulative earnings of Rs12.71 (Rs2.38 in 4QFY09) compared to FY08 earnings of Rs11.54 (4QFY08 EPS of Rs3.1) up 10%YoY. Despite lower crude oil prices (down 27%YoY), we believe higher well head gas prices and sharp rupee devaluation will support the bottom-line.

Moreover, we expect final cash dividend of Rs2.8. We recommend 'Buy' on OGDC at current levels as it is likely to post annualized earnings growth of 8% during next 3 years. The scrip is trading at FY10 and FY11 PE of 7.5x and 6.5x and dividend yield of 11% & 12%, respectively.

EPS of Rs12.70 likely in FY09

During FY09, OGDC is likely to post earnings of Rs54.6bn (EPS Rs12.71) versus profit of Rs49.6bn (EPS Rs11.54) last year – a growth of 10%YoY. Higher earnings this year are expected due to improved well head gas prices, resulting in higher gas revenues. This is likely to offset the impact of decline in oil revenues amid sharp reversal in international crude oil prices (avg. prices down 27%). Besides, higher well head gas prices and 20% rupee devaluation also supported the bottom-line of the company, since local oil and gas pricing is linked with international oil prices quoted in US dollars. Therefore, any devaluation of Pak rupee against dollar in turn benefits local E&Ps. Moreover, higher tax expense last year due to Rs11.6bn prior year tax adjustment diluted base year earnings.

On the cost side, we expect higher operating and prospecting expenditures in FY09. We estimate operating expenses to reach at Rs22.8bn during FY09, up 21% compared to last year mainly on the back of higher amortization expense on production assets (14 new wells were brought into production during 9MFY09). Similarly, exploration expenses are expected to increase by 5% to Rs6.9bn primarily due to higher number of dry wells recorded by OGDC during FY09.

Table: Financial Highlights

(Rs mn)	FY09E	FY08A	Δ%
Net sales	131,931	125,446	5%
Royalty	15,478	17,262	-10%
operating expenses	22,821	18,882	21%
Transportation charges	1,742	1,473	18%
Other income	4,138	8,309	-50%
Exploration and prospecting exp	6,973	6,613	5%
General, admin and other exp	1,066	1,244	-14%
WPPF	4,373	4,387	0%
Profit before tax	82,799	83,361	-1%
Profit after tax	54,609	49,614	10%
EPS (Rs)	12.70	11.54	10%

Source: JS Research, Company Accounts

30 wells drilled during FY09, 4 discoveries

During FY09, OGDC drilled 30 wells (12 exploratory and 18 development) against a target of 29 wells (14 exploratory and 15 development). Alongside this few carry over wells were also completed during the period. According to the PPIS data, 5 wells were marked as dry holes in which OGDC has 100% working interest whereas the company made 4 discoveries during FY09.

Final dividend expected at Rs2.7–2.8/share

Despite tight liquidity situation amid circular debt issue, we expect a final cash dividend of Rs2.7-2.8/share. Just like past few quarters, we believe OGDC may give dividend to minority shareholders and withhold government's share which would be contingent upon circular debt resolution. Hence, we believe that OGDC should be comfortable as far as dividend paying ability to the minority shareholders is concerned.

However, there is a risk that if this circular debt is not resolved during next 2-3 months, OGDC would be in severe liquidity shortage. In that regard, the management told us that it expects the govt. to settle the issue within 1-2 months.

farhan.mahmood@js.com
92 (21) 111-574-111 (ext. 3103)

Also in focus**OGDC: Gas discovery at Reti 1–A (Guddu)**

OGDC has made a small gas discovery of 2.82mmcf/d in Guddu Block at Reti exploratory well no 01-A located in district Ghotki of Sind Province. In Guddu block, OGDC has 70% working interest followed by IPR (25%) and GHPL (5%). According to our estimates, the annualized per share earning impact on OGDC would be Rs0.01.

MCB announces acquisition of RBS Pakistan

MCB Bank has announced successful acquisition of RBS Pakistan for US\$87mn (Rs7.2bn). The Bank will acquire 1.707mn shares representing 99.37% of the total paid up capital, for a cash consideration of Rs4.22/share. Based on 31st March 2009 accounts, the transaction was carried out at a multiple of 0.73x the book value.

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

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800163
tariq.usman@js.com

Equity Sales:

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

Corporate Finance:

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

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS