JS Research

January 12, 2010

**Pakistan Market**

# PPL: Attractive on all counts

MORNING BRIEFING

KSE100 Index: Closing 9797.00 ↑ (+20.79)

We rate Pakistan Petroleum Limited (PPL) as our top pick in the E&P sector on the back of stock's compelling valuations, mainly driven by new production flows from Tal, Hala, Latif and Nashpa fields. Recovery in hydro carbon prices and steep Rupee depreciation further improves E&P sectors outlook. In addition, company's balanced exploration strategy and its focus on local and international JVs offer the potential of new hydrocarbon discoveries and reserves addition going forward.

## Valuation: offers an upside of 19%

Based on our reserve based fair value of Rs236 per share, PPL is set to offer 19% potential upside from the current market price. In addition, the stock also offers one of the most attractive dividend yields (FY10E 7.6%) not only amongst our JS Universe companies but also compared to its regional peers.

## Production flows already materializing

Commencement of hydrocarbon production from discoveries including Latif and Gambat has already started to contribute around 50mmcfd of gas. Apart from this, oil and gas production from Adam-X well in Hala is expected to begin during 3QFY10; the initial flows are likely to remain in the vicinity of 1,200bpd oil and 15mmcfd gas. Additional 150mmcfd gas flow is likely to commence by June 2010, once the installation of interim gas compression plants at Qadirpur is accomplished.

## Wellhead prices set to rebound

Due to limited share of oil sales in PPL's revenue pie (16%), the company remained the least beneficiary of soaring oil prices, however, we view PPL as the key beneficiary of the upcoming wellhead price revision as wellhead prices of Sui and Kandhkot (contributing 75% to PPL's gas production) would witness an increase of 23%.

## Key risks to our thesis

- **Volatility in oil prices:** With rising volatility in the international oil prices, Arab Light crude prices so far in FY10 has hovered in the range of US$61.7 – US$81.6 averaging at US$72.9 per barrel. Though, our Arab Light price estimate for FY10E, FY11F, FY12F currently stands at US$73, US$76 and US$77 per barrel, respectively, any significant change in the crude price movement could compel us to revise our forecasts. As per our analysis, a US$1 per barrel change in oil price forecast would impact PPL's earnings estimate by 0.2% versus 0.5% for the E&P sector.

- **Circular Debt:** With the accumulation of inter corporate debt in the country there are concerns regarding the liquidity situation and payouts from energy companies including the E&Ps. We believe, with the persistent rise in power and gas tariffs, removal of subsidies under the guide lines of IMF program and lending for budgetary support from IMF, the government is in a relatively better position to resolve the issue. Hence, we could see some improvement in the liquidity situation of energy companies by the end of FY10. This should mitigate the risk of dwindling dividends payouts.

**Table: Key numbers**

| | FY08A | FY09A | FY010E | FY011F | FY012F |
|---|---|---|---|---|---|
| EPS (Rs) | 19.8 | 27.8 | 24.5 | 32.6 | 34.4 |
| PBV (x) | 4.1 | 2.3 | 2.3 | 2.0 | 1.8 |
| PE (x) | 9.2 | 5.3 | 8.1 | 6.1 | 5.7 |
| Dividend Yield (%) | 7.1% | 7.3% | 7.6% | 10.1% | 11.1% |

*Source: JS Research*

**For more details please refer to our short report titled "PPL: Attractive on all counts".**

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## Also in focus

### Remittances in 1HFY10 up 24% to US$4.5bn

The remittance number for the month of December came in at US$698mn, taking the total figure for the first six months of FY10 to US$4.5bn- up 24%YoY. Although on a MoM basis, the remittance flow for December was down 6%, the figure on a YoY basis was up 4%. Interestingly, remittances from Dubai dropped by 15% vis a vis the previous month to US$63mn. We expect total remittances to stand at US$9bn in FY10.

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