

April 13, 2010

Pakistan Market**E&P: Sui & Kandhkot wellhead prices up 24%****MORNING BRIEFING**

KSE100 Index: Closing 10557.19 ↓ (-29.27)

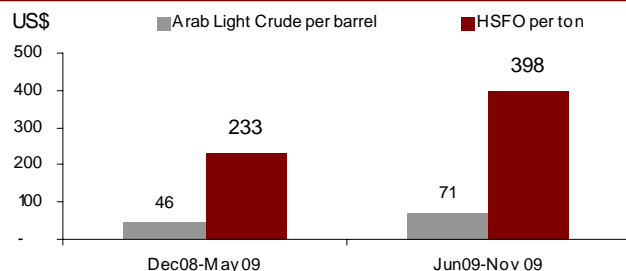
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OGRA (Oil and Gas Regulatory Authority) yesterday issued new gas wellhead prices for the period 2HFY10 (Jan-Jun 2010) for some of the major gas producing fields. Under this revision, the wellhead prices for uncapped fields have broadly risen up to 24.3% on the back of higher Arab Light and HSFO prices in the first 6 months of the preceding 7 months period (May – Nov).

54% and 70% HoH rise in crude and HSFO prices

Wellhead gas prices in the country are revised in January and July every year, depending on the average Arab Light crude and HSFO prices during the first six months of the preceding seven months period. The average Arab Light price during this period stood at US\$71 per barrel versus US\$46 per barrel in the previous six months, reflecting a growth of 54%. Similarly, HSFO prices also soared by 70% to US\$399 per ton in the same period.

Graph: Avg. Arab Light & HSFO prices Comparison

Source: JS Research, Reuters

PPL stands as the key beneficiary of this revision

The wellhead price of Sui has been raised by 24% under this revision, as there is no cap on the wellhead pricing for this field. PPL with a 100% stake in Sui is the primary beneficiary of this revision as the field contributes over 60% to PPL's total gas production. Based on our calculations, the revision in the two fields' wellhead prices would improve PPL's 2HFY10

earnings by Rs1.76 per share. However, this expected jump in earnings is already incorporated in our earning estimates.

Prices of Pindori, Turkwal and Pariwali up 17%

In this revision, wellhead prices of Pindori, Turkwal and Pariwali fields have increased by 19.4% to US\$3.75 per mmbtu from US\$3.15 per mmbtu previously.

Expected Revision In Gas Well Head Prices

Field	Major Stake Holders	1HFY10	2HFY10	Δ%
Prices in US\$ per mmbtu				
Mela	OGDC(57%), PPL(26%)	2.7	2.7	0%
Miano	OGDC(52%), PPL (15%)	2.9	3.5	20%
Pariwali	POL(83%)	3.1	3.8	21%
Pindori	OGDC(50%), POL(35%)	3.1	3.8	19%
Sawan	PPL(26%)	2.9	3.5	20%
Turkwal	POL(67%)	3.1	3.8	19%
Uch	OGDC(100%)	3.9	3.9	0%
Prices in Rs per mmbtu				
Adhi	OGDC(50%), PPL(39%)	119.7	124.0	4%
Dakhni	OGDC(100%)	120.1	124.3	4%
Kandhkot	PPL(100%)	115.7	143.9	24%
Sui	PPL(100%)	115.7	143.9	24%

Source: OGRA, JS Research

'Overweight' stance maintained

In the light of this revision, we maintain our 'over-weight' stance on the sector with a 'Buy' recommendation on PPL and POL. PPL is currently trading at FY11F PE of 6.3x and offers 15% upside to our target price of Rs236. POL based on our Target price of Rs278 offers a potential upside of 14% from the current market price.

E&P Valuation snapshot

(FY11F)	PE (x)	Div. yield	Target Price
OGDC	8.6	8.2%	126
POL	6.1	10.7%	278
PPL	6.3	10.3%	236

Source: JS Research

Also in focus**9MFY09 trade deficit declines 14% to Rs10.9bn**

According to the figures released by the Federal Bureau of Statistics, trade deficit for 9MFY09 came in at US\$10.9bn as against US\$12.7bn last year – a decline of 14.3%. As per the break up, exports rose 6% to US\$14.2bn while imports dipped by 4% to US\$25.1bn. In March alone, the deficit was reported at US\$1.5bn.

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