

September 14, 2009

Pakistan Market**Nashpa discovery: Impact on OGDC and PPL****MORNING BRIEFING**

KSE100 Index: Closing 9058.77 ↑ (+62.58)

OGDC has achieved one of the biggest oil discoveries at Nashpa exploration lease in the district Karak of NWFP. Total oil production is estimated to be around 7200 barrels per day (bpd) which is more than 10% of country's existing oil production. Beside this, significant gas flow has also been tested at around 25 million cubic feet per day (mmcf). OGDC would be the major beneficiary with annualized earnings to improve by 7% (EPS impact of Rs0.85-0.95) followed by 3.5% increment in PPL's earnings (EPS impact of Rs1.0-1.1).

We expect another 2-3 small and medium size oil and gas discoveries by OGDC in next few months. We maintain 'Buy' stance on PPL while we have recently downgraded our stance on OGDC to 'Hold'.

Nashpa: Biggest oil discovery in NWFP

This is the largest oil discovery in NWFP and amongst the few largest oil discoveries in Pakistan. The last sizeable oil discovery was Dhurnal back in early 80s when average production from the field was close to 15,000bpd. However, production from this field has significantly come down in recent years.

Located in the district Karak of NWFP province, the Nashpa lease has significant oil and gas potential. Out of 5 formations including Datta, Shinwari, Samanasuk, Lumshlwal & lochart, the lochart formation has been found with initial total oil and gas flows of 7200bpd and 25mmcf, respectively. OGDC is the operator of the field with 65% stake followed by PPL (30%) and GHPL (5%). We expect potential reserves addition from Nashpa once final reserve study is carried out in the next 6-7 months.

Given the fact that the area is rich in oil and gas resources, the management of the company believes that the final reserve numbers could be far more encouraging than Mela (another field in Nashpa block discovered in 2006) which has total oil reserves of 20mn barrels (7% of the country's total oil

reserves). We expect partial production from this well to come online by the end of this fiscal year. Once the full production comes in, we expect annual earnings of OGDC to increase by Rs0.85-0.95 per share followed by Rs1.01-1.1 per share impact on PPL.

More medium size discoveries possible

We expect 2- 3 small medium size discoveries in the next few months. These could be 1) Rind in Hyderabad 2) Sahib Gul1 in Kohat, NWFP and 3) Khuwaja 1, Kohat, NWFP.

Recommendation: "Hold" OGDC and "Buy" PPL

Currently OGDC is trading at FY10 PE of 8.8x and suggest a limited upside to our target price of Rs115/share. The stock has already risen by 43% since the beginning of FY10. We recommend 'Hold' stance on OGDC. However, we maintain our 'Buy' stance on PPL. The scrip is currently trading at FY10 PE of 7.2x.

Oil & Gas Development Company	
Market Price: Rs112.09	Kats Code: OGDC
Market Cap: Rs482.1bn (US\$5.8bn)	Bloomberg Code: OGDC PA
1-yrs Avg. Daily Volume: 8.2mn shares, Rs600.6mn (US\$7.3mn)	Reuters Code: OGDC.KA
1-year High/Low: Rs115.01/40.97	

Pakistan Petroleum Limited	
Market Price: Rs226.72	Kats Code: PPL
Market Cap: Rs188.14bn (US\$2.3bn)	Bloomberg Code: PPL PA
1-yrs Avg. Daily Volume: 2.7mn shares, Rs485.8mn (US\$5.9mn)	Reuters Code: PPL.KA
1-year High/Low: Rs230.54/100.62	

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Also in focus**USF invites bids for new broadband contract**

Universal Service Fund (USF) has invited bids for provision of broadband services in the unserved urban areas of Central Telecom Region (CTR) which composes of district of Kasur, Okara, Pakpattan, Sahiwal and Sheikhpura. Although financial and subscriber details are awaited, winners for the contracts are expected to be announced in the first week of December. To recall, PTCL has participated and jointly won the three previous USF broadband contracts, each with an expected completion period of 18 months and cumulative additions of ~159k subscribers.

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