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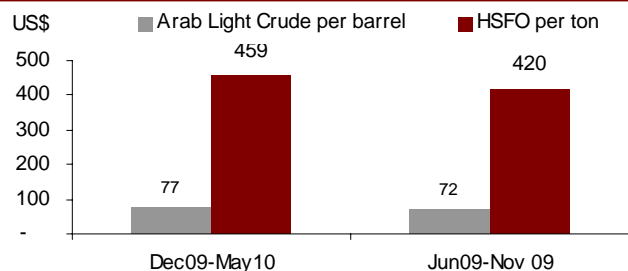
Pakistan Market**Up to 6% rise expected in wellhead prices****MORNING BRIEFING**

KSE100 Index: Closing 9229.60 ↓ (-241.52)

The first semiannual wellhead price revision for FY11 is expected to be announced next month. This revision would be based on Arab Light Crude and HSFO prices in the period Dec09-May10, during which fuel prices witnessed an increase of 8-9%. Based on this, we expect wellhead prices to rise up to 6%.

8% & 9% HoH rise in crude and HSFO prices

Wellhead gas prices in the country are revised on half yearly basis, depending on the average Arab Light crude and HSFO prices in the first six months of the preceding seven months period. To forecast the next price revision, we have taken average Arab Light and HSFO prices for the period Dec09-May10. The average Arab Light price during this period stood at US\$77 per barrel versus US\$72 in the previous six months, reflecting an increase of 8%. Similarly, HSFO prices also soared by 9% to US\$459 per ton in the same period.

Avg. Arab Light & HSFO prices Comparison

Source: JS Research, Reuters

2% decline in US\$/Rs parity to improve benefit

Rupee also depreciated by around 2% against US\$ during the period under discussion. This fall in the exchange rate would further improve the gas pricing for the E&Ps in Rupee terms.

6% hike likely in Sui & Kandhkot prices

We anticipate PPL will be the prime beneficiary of the upcoming wellhead price revision on the back of 6% expected

rise in wellhead prices of Sui and Kandhkot. The two fields contribute around 80% of total gas production of the company.

Expected Revision In Gas Well Head Prices

Field	Major Stake Holders	2HFY10	1HFY11E	Δ%
Prices in US\$ per mmbtu				
Mela	OGDC(57%), PPL(26%)	2.66	2.66	0%
Miano	OGDC(52%), PPL (15%)	3.50	3.56	2%
Pariwali	POL(83%)	3.76	3.82	2%
Pindori	OGDC(50%), POL(35%)	3.76	3.82	2%
Sawan	PPL(26%)	3.50	3.56	2%
Turkwal	POL(67%)	3.76	3.82	2%
Uch	OGDC(100%)	3.92	3.92	0%
Manzalai	OGDC(28%), PPL(28%), POL(21%)	2.73	2.73	0%
Prices in Rs per mmbtu				
Adhi	OGDC(50%), PPL(39%)	124.0	126.9	2%
Dakhni	OGDC(100%)	124.3	127.1	2%
Kandhkot	PPL(100%)	143.9	151.8	6%
Sui	PPL(100%)	143.9	151.8	6%

Source: OGRA, JS Research

Other uncapped fields to witness a 2% rise

Other than Sui and Kandhkot, gas fields governed under the Petroleum Policy 1997 are also likely to witness a rise in the vicinity of 2% versus the existing wellhead prices. Sawan, Miano, Pariwali, Pindori and Turkwal are key fields operating under the 1997 policy.

On the contrary, fields governed under the policy of 2001 including Manzalai, Makori and Mela would not be subject to revision in wellhead prices due to US\$36 per barrel cap on their pricing formula.

E&P Sector: 'Over-weight' maintained

At current levels, E&P sector is trading at an FY11F PE of 7.0x and offers dividend yield of 9.5%. Based on this, we maintain our 'Over-weight' stance on the E&P sector with a

'Buy' recommendation on PPL and POL.

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Also in focus**Pakistan plans domestic Sukuk issue**

According to SBP's financial markets and reserve management executive director, the govt. is planning to issue Islamic bonds in the domestic debt market during the coming quarter. In addition, the Finance Ministry had already shown intention to issue US\$500mn worth of Sukuk bonds in the global market this year. To add here, Moody's present rating for Pakistan is a B3 and S&P has given it a ranking of B-

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