April 16, 2010

Pakistan Market

MORNING BRIEFING

Earnings recovery to continue for PPL & POL

KSE100 Index: Closing 10677.47 ↑ (+106.59)

The board of Pakistan Oilfields Limited (POL) and Pakistan Petroleum Limited (PPL) are scheduled to meet next week to announce March quarter results for their respective companies. The two companies are likely to post strong QoQ rise in earnings mainly on the basis of higher production, recovery in oil and gas wellhead prices and expected fall in exploration related expenses. As POL and PPL are still trading at FY11F PE of 6.1x and 6.3x, respectively, we reiterate our 'Buy' call on the two stocks.

POL: 3QFY10 EPS likely at Rs9.3

For 3QFY10, POL is likely to post net revenues of Rs5.0bn (up 5%QoQ). The growth is mainly attributed to higher oil and gas production from Manzalai. During the quarter, oil and gas production from the said field stood at 4,248bpd (up 80%QoQ) and 242mmfcd (up 77%QoQ), respectively. In addition to the higher revenue, we expect POL's exploration expenses to decline by a major Rs366mn to Rs160mn in the absence of any dry well in the period under discussion. Other income, on the other hand, is likely to stand around Rs280mn compared to Rs561mn previously primarily because of absence of dividend income this quarter.

On 9 month basis, POL is likely to post net profit of Rs5.5bn (EPS: Rs23.3), up 17%YoY. The expected growth is mainly an outcome of increased oil and gas production from Manzalai, coupled with higher international oil prices which stood at US$73.6 per barrel compared to US$70.5 per barrel in the corresponding period last year.

PPL: 3QFY10 EPS likely at Rs6.8

PPL for 3QFY10 period is likely to announce EPS of Rs6.8, versus Rs4.8 announced in the previous quarter. This expected earning growth would be mainly led by 24% upward revision in gas wellhead prices of Sui and Kandhkot (effective from Jan 2010). The two fields contribute around 60% to PPL's gas production. In addition, higher oil and gas production from Manzalai are also likely to boost company's top line to Rs16.0bn (up 22%QoQ). We expect company's exploration expenses during the quarter to stand around Rs4.2bn inclusive of Rs1.1bn cost incurred on a dry offshore well (Shark-1). This estimated expense is slightly lower compared to Rs4.4bn recorded in the previous quarter, which included Rs1.3bn expense incurred on Sui-38.

On 9 month basis, we expect PPL to post net profit of Rs16.6bn (EPS: Rs16.6), down 21%YoY. The decline is expected due to lower gas wellhead prices during 1HFY10. The field expenditures are likely to surge by 35% to Rs11.9bn mainly on account of expense incurred on Sui-38 and dry offshore well.

Recommendation: 'Buy' PPL & POL

The two stocks at current prices offer FY11F PE of 6.3x and 6.1x respectively along with decent dividend yields. Hence at these levels, we maintain our 'Buy' call on the two stocks.

E&P Valuation snapshot

(FY11F)	PE (x)	Div. yield	Target Price
POL	6.1	10.6%	278
PPL	6.3	10.3%	236

Source: JS Research

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Also in focus

Broadband subscribers rise to 688k in Jan 10

As per the latest telecom data released by PTA, total broadband subscribers in the country have risen to 688k in Jan10, gaining 44k new customers in the month. DSL continues to be the leading technology with 407k (59%) subscribers, followed by WiMax with 184k (275) subscribers. We continue to remain bullish on the segment, and maintain our buy call on PTCL which trades at an EV/EBITDA of 3.2x and offers a dividend yield of 8%.

Moreover, latest cellular data shows number of subscriber's rising again in Feb, after taking a dip in Jan, to 96.2mn. Subscribers rose by 823k or 0.86% in February. Mobilink continues to be the market leader with 31.3mn subs (32.5%) of the market share, followed by Telenor and Ufone with 22.9mn (23.8%) and 18.8mn subscribers (19.5%).

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