

January 18, 2010

**Pakistan Market****PPL: 1HFY10 earnings preview****MORNING BRIEFING**

KSE100 Index: Closing 9923.14 ↑ (+120.69)

The board of Pakistan Petroleum Limited (PPL) will meet on January 25, 2010 to announce the company's 1HFY10 financial results. We expect the company to post an EPS of Rs10.7 per share versus Rs13.8 per share in the same period last year, depicting a YoY decline of 23% mainly due to lower gas wellhead prices. We expect the company to announce interim cash dividend in the range of Rs4-5 per share.

**1HFY10 EPS of Rs10.7 likely**

Compared to 1QFY10 EPS of Rs5.0 per share, PPL's second quarter earnings are likely to depict a 14% growth QoQ to stand at Rs5.7 per share (PAT Rs5.6bn), taking the first half earnings to Rs10.7 per share (Rs10.6bn). This QoQ growth is the outcome of rise in the international crude prices (average Arab Light price up 5.6%QoQ) and the commencement of commercial production from Manzalai (currently standing at 3,900bpd oil and 209mmcfcd gas, respectively).

**PPL: 1HFY10 earnings estimates**

(Rs mn)	1HFY10E	1HFY09A	%Δ
Sales	25,876	29,604	-13%
Field Expenditure	(6,847)	(5,776)	19%
Royalties	(3,085)	(3,611)	-15%
	15,944	20,218	-21%
Other Income	1,256	2,308	-46%
Finance Cost	(66)	(46)	44%
Other Expenses	(1,170)	(1,550)	-25%
<b>PBT</b>	<b>15,963</b>	<b>20,929</b>	<b>-24%</b>
Taxation	(5,357)	(7,155)	-25%
<b>PAT</b>	<b>10,606</b>	<b>13,774</b>	<b>-23%</b>
<b>EPS</b>	<b>10.7</b>	<b>13.8</b>	<b>-23%</b>

Source: JS Research

The YoY decline in profitability is mainly attributed to downward revision in gas wellhead prices effective from July 2009 in which the wellhead prices of Sui and Kandhkot were revised downwards to Rs115.7 per mmbtu (down 17%YoY).

However, higher oil and gas production due to new production flows from Latif and Tajjal and the commencement of commercial oil and gas flows from Manzalai have somewhat mitigated the impact of low wellhead prices.

**Recommendation: 'Buy' maintained**

With an expected upward revision in the gas wellhead prices effective from January 2010 and new production flows already materializing, we expect the earnings to witness further improvement in the second half of current fiscal year. At current levels, the stock is trading at FY10E and FY11F PE of 7.9x and 6.8x respectively, offering FY10E dividend yield of 7.3%. Hence, we maintain our 'Buy' stance on the stock.

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**Also in focus****FDI drops by 57%; PI up in 1HFY10**

According to the foreign investment figures released by the State Bank, FDI dropped by 57% in 1HFY10 to US\$1.01bn compared to US\$2.35bn in the same period last year. This, we believe, is on account of the political and security worries in the country, which have weakened investor confidence. However, Portfolio Investment figures have shown a major rise in the period as US\$272mn was directed inwards as against an outflow of US\$188mn in the same period last year. The floor imposed by the authorities on the KSE in August 2008 was the main reason that discouraged new investments and lead to a sharp outflow of funds.

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