August 19, 2009
Pakistan Market

MORNING BRIEFING

POL: Near term triggers & earnings outlook– 'Buy'

KSE100 Index: Closing 7995.10 ↑ (+62.55)

We believe 1) recovery in oil production from Pindori (expected up to be 1,800-2,000bpd) by this month end and 2) incremental gas flows from Tal block by October 2009 could be the two major short term triggers for POL. According to the latest PPIS numbers (as of August 11, 2009), production from Pindori has increased to 1,430bpd. This is significantly higher than its trough level of 55bpd reported in April 2009.

According to our calculation, every 500bpd improvement in oil production from Pindori has an annualized earnings impact of Rs0.6-0.7/share on POL.

We reiterate our 'Buy' stance on POL, the only stock in the JS E&P universe with near term earning growth potential. The stock is available at a decent 14% discount to the market on one year forward earnings multiples. Our target price for the stock is Rs245, offering an upside of 40%. Risk to our thesis are 1) sharp decline in oil prices 2) delay in addional production from existing and new fields (Manzalai and Mamikhel) and 3) continuation of circular debt.

Pindori: Forgotten but not lost, production up 60%

We already hinted in our short report 'POL: Trading at book value' dated July 17, 2009 that production from Pindori has bottomed out. According to the latest data (as of August 11, 2009), oil production from Pindori has increased to 1,430bpd, up 60% from previous level of 890bpd. Moreover, according to our discussion with the company, work over job at wells 3 and 4 is under way and the work is expected to be completed by the end of this month. The management also believes that 500-600bpd of oil could be recovered from these wells by this month end.

According to our calculation, a 500bpd increase in oil production improves POL's annualized earnings by Rs0.6-0.65/share. Pindori, which was the largest oil producing field for the POL, saw its production decline by an average 37% during last 5 years upto 809bpd in FY09.

Manzalai: A major earnings propeller for POL

Another major trigger for POL is the 200mmcfd incremental gas flows from Manzalai expected to come online by October 2009. The field is currently producing 37.5mmcfd of gas (stake adjusted share of POL is 9.4mmcfd). According to our estimates, this will add Rs5.5 per share to the bottom-line in FY10 (full impact of Rs10-11/share in FY11). Moreover, the current energy shortage has prompted the government to push the E&P companies to expedite the development process. Thus we believe there is low probability of any further delay in production from this field.

FY10 earnings revision and assumptions

We have revised upwards our oil price assumption by 8-9% for the next 5 years (in line with Reuter's oil poll). We now expect average crude oil price of US$59/bbl for FY10 compared to our previous estimate of US$54.bbl. After adjusting few other variables, we have revised our earnings forecast for FY10 to Rs28.1/share compared to Rs27.6/share previously. We are still conservative on our production estimates as we have taken an average of 800bpd oil production from Pindori while expecting an average of 185mmcfd of gas from Manzalai during FY10. However, every two month delay in Manzalai could reduce FY10 earnings by 4-5%, we believe.

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Pakistan Oilfields Limited	
Market Price: Rs175.53	**Kats Code:** POL
Market Cap: Rs41.5bn (US$502mn)	**Bloomberg Code:** POL PA
1-yrs Avg. Daily Volume: 2.9mn shares, Rs442.7mn (US$5.4mn)	**Reuters Code:** PKOL.KA
1-year High/Low: Rs296.69/81.53	

Also in focus

Oil rises to US$70 per barrel

Oil prices continued to remain volatile amid mix economic data during last few months. However, rising concern over a hurricane in the Gulf of Mexico is pushing oil prices upwards. There are fears that oil supply could be disrupted. Hence, oil prices rebounded to US$70per barrel, up 8%, from its low of US$65/bbl last week.

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