

January 21, 2009

Pakistan Market**PPL: More than 50% earnings growth expected****MORNING BRIEFING**

KSE100 Index Closing 5258.28 ↓ (-22.47)

After FFBL's better than expected announcement, investors are keenly looking for companies that can post better earnings and pay good dividends. PPL is one such stock which is likely to post a handsome growth of 57% in the bottom line during 1HFY09. The scrip is trading at its lowest forward looking PE of 3.8x on FY09 earnings.

DPS Rs22 (dividend yield 16.6%). However, the full impact of decline in oil prices will be felt in FY10 earnings as average 2009 calendar year price would be 50% lower than average 2008 oil prices, we believe. This is despite the fact that 200mmcf gas from Tal block would be online in FY10 which will increase earnings of the company. For FY10, our earnings forecast is Rs31.1/share with DPS of Rs20.

Besides long-term investors, this particular stock is attractive for short-term traders as downward risk in FY09 earnings is limited. In addition to good dividend yield, there is an upside potential of 27% and that is why we recommend 'Buy' at current levels.

EPS of Rs17.6 expected in 1HFY09

For FY08, we expect PPL to post earnings of Rs14.6bn (EPS Rs17.6 per share) against Rs9.3bn (EPS Rs11.2 per share), increase of 57% over 1HFY09. Alone in 2QFY09, PPL is expected to report net profits of Rs6.8bn (EPS Rs8.2 per share), an increase of 51% versus the corresponding period last year. PPL has already announced Rs5/share interim cash dividends for 2QFY09. And we cannot rule out similar payout with Dec results also.

The growth in earnings is primarily attributed to higher oil and gas wellhead prices and 21% rupee devaluation compared to last year. For PPL, the sharp decline in oil prices (down 72% from peak of US\$147/bbl) will not be visible during 1HFY09 due to higher share of gas in its hydro-carbon as gas prices are fixed for a 6-months period.

Worst case dividend yield is also attractive

We are expecting EPS of Rs34.8 and DPS of Rs23 in FY09 generating a dividend yield of 17.4%. Though foreigners don't have substantial holding in this stock, oil price risk is there but relatively less and the impact will be with a gap of 6 months as more than 85% of PPL's revenues come from gas production whose price is adjusted with a lag. In case oil price is US\$20/bbl lower than our assumption i.e. US\$30/bbl in Jan-June period, PPL worst case EPS will be Rs34.0 and

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Pakistan Petroleum Limited

Market Price: Rs132.30	Kats Code: PPL
Market Cap: Rs109.8bn (US\$1.4bn)	Bloomberg Code: PPL PA
1-yrs Avg. Daily Volume: 3.3mn shares, Rs810.6mn (US\$10.1mn)	Reuters Code: PPL.KA
1-year High/Low: Rs278.52/100.62	

Also in focus**Oil import bill down 35%MoM in Dec 2008**

According to trade details released by Federal Bureau of Statistics, oil import bill in the month of Dec 2008 fell to US\$404mn down 35%MoM from US\$621mn recorded in Nov 2008. As a result, the total oil import bill in 1H (July-Dec) FY09 stood at US\$5.9bn as against US\$4.2bn in 1HFY08, an increase of 39%YoY. With our average Arab Light crude expectation of US\$50/barrel in 2HFY09, we expect full year oil import bill of US\$9.5bn as against US\$11.4bn recorded in FY08. However, if the international oil prices fall US\$20/barrel below our expectation of US\$50/barrel, the oil import bill would fall to around US\$8.2bn.

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