November 23, 2009
Pakistan Market
MORNING BRIEFING

PPL: Earnings likely to rebound in 2HFY10

KSE100 Index: Closing 9306.36 ↑ (+55.17)

Despite posting a 36%YoY decline in earnings, Pakistan Petroleum Limited (PPL) remains one of our preferred picks in the E&P sector. Our liking for the stock is primarily based on company's well balanced exploration and development plans, rising oil prices and an expected increase in wellhead gas prices (to be effective from Jan 2010). At these levels, we maintain our 'Buy' stance on the stock.

1QFY10 profits dip due to low oil & gas prices

During 1QFY10, the company posted net earnings of Rs4.9bn (EPS: Rs5.0) versus Rs7.8bn (EPS: Rs7.8) in the corresponding period last year. The decline was mainly attributed to reduction in gas wellhead prices. Wellhead gas prices of Sui and Kandhkot (contributing 79% to the company's total gas production) witnessed an 18% declined compared to the wellhead price of Rs139.8 per mmbtu in the corresponding period last year. Moreover, a significant 40%YoY decline in average Arab Light crude prices which stood at US$69.2 per barrel also dragged the earnings down.

On the production side, although oil sales remained relatively flat at 367,200 barrels, gas production witnessed a 6% decline mainly on the back of natural production fall from Sui.

Development activities largely on track

With a well balanced and diversified development plan, PPL is set to reap the benefits of various production initiation and enhancement plans expected to materialize in the current fiscal year. The commencement of commercial operations of Central Processing Facility at Manzalai (PPL stake: 27%) has already improved volumes to 2,160bpd of oil and 130mmcfd of gas. The production level is expected to increase to 4,000bpd of oil and 250mmcfd gas by the end of Dec 2009. Moreover, expected drilling completion of Mela-3 well in Nashpa block (PPL stake: 26%) would also improve field's oil production volume by 2,000 to 3,000bpd by early Dec. Apart from above, gas production of 27mmcfd from Latif (PPL stake: 33%) has already begun this quarter.

2HFY10 earnings likely to rebound

With a rebound in International oil prices, we foresee a positive revision in wellhead gas prices for 2HFY10 (to be effective from Jan 2010). For Sui and Kandhkot – PPL's two key gas producing fields, we foresee an upward revision in the vicinity of 20% versus the prevailing wellhead prices of Rs115.7 per mmbtu. This coupled with additional oil and gas production from Manzalai and the expected commencement of oil and gas production from some other fields is likely to improve company's earnings in the second half of the current fiscal year.

Recommendation: 'Buy' maintained

PPL currently trades at FY10E and FY11F PE of 7.0x and 6.0x respectively. Moreover, it also offers FY10 dividend yield of 11.1%. Hence, at these levels, we maintain our 'Buy' stance on PPL.

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Pakistan Petroleum Limited	
Market Price: Rs181.02	**Kats Code:** PPL
Market Cap: Rs180.3bn (US$2.2bn)	**Bloomberg Code:** PPL PA
1-yrs Avg. Daily Volume: 2.9mn shares, Rs529mn (US$6.3mn)	**Reuters Code:** PPL.KA
1-year High/Low: Rs235.31/100.62	

Also in focus

INDU changes prices yet again

Indus continuing with its trend of reacting to changing demand, slashed prices by Rs4,000 to Rs27,000 across its product portfolio on Saturday, according to a news report. This was after it had jacked up rates only as recent as mid of the last month to accommodate for Yen's appreciation against the rupee. The management had then been of the opinion, that the consumers would have remained undeterred by this price change. Notably, Toyota XLI's price has been pushed down to Rs1,242,000 from Rs1,269,000 (Δ -27,000) and GLI's price been cut by Rs9,000 to Rs1,375,000. This as we understand, has been done to boost weak demand particularly for XLI which persisted following the previous price hike. The company however has not officially validated this price revision.

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