

February 25, 2010

Pakistan Market

MORNING BRIEFING



OGDC: 1HFY10 result and conference call update

KSE100 Index: Closing 9686.18 ↓ (-137.39)

Yesterday, OGDC announced its 1HFY10 result posting an EPS of Rs6.6 registering YoY decline of 10%. Along with the result, the company also announced second interim cash dividend of Rs1.5 per share taking cumulative dividend to Rs2.5 per share. Later the company conducted an analyst conference call to discuss its 1HFY10 performance and outlook. Currently, the stock is trading at FY11F PE of 7.6x and we recommend 'Hold' on OGDC.

Earnings down 10%YoY

OGDC posted net profit of Rs28.5bn (EPS: Rs6.6) versus earnings of Rs31.8bn (EPS: Rs7.4) in 1HFY09, a decline of 10%YoY. The fall in earnings was mainly attributed to lower oil & gas wellhead prices. Decline in oil production (down 6.7%YoY) also pulled down the revenues. Operating expenses on the other hand remained flat at Rs10.7bn, whereas, exploration expenses surged to Rs4.7bn versus Rs3.5bn in the corresponding period last year.

The company also incorporated the positive revenue impact of Rs8.7bn on the back of upward revision (with effect from January 2008) in Qadirpur's provisional wellhead price. We estimate that the entry has inflated company's 1HFY10 earnings by around Rs0.96 per share. Going forward, we believe the revised wellhead price would improve OGDC's annualized earnings by Rs0.75 per share on recurring basis.

Circular Debt continues to hamper other income

Other income for 1HFY10 stood at Rs1.2bn (lower by 61%YoY), the decline is mainly attributed to lower cash balance owing to slow recovery in receivables. Company's trade debts have swelled to Rs77bn comprising overdue receivables worth Rs42.2bn versus Rs28.1bn as of June 2009. The amount also includes Rs8.6bn charged to SNGP on account of Qadirpur price revision. On the other hand, OGDC's payables have soared to Rs29.6bn versus Rs18.7bn as the company is delaying payment of government levies (royalty and sales tax) which have cumulatively risen by

Rs8.2bn during the first half. However, contrary to the general perception the company is not delaying dividend payments to the government. Like IPPs and PSO, OGDC is also charging markup on delayed payments to refineries and gas marketing companies, however the company is not accruing the amount in its statements until the payments are actually received.

Full year dividend forecast cut to Rs7 per share

Based on the current scenario where, the circular debt issue is getting prolonged, we cut our FY10E dividend forecast to Rs7 per share from Rs8.3 earlier.

New production flows expected in 2010

Hydrocarbon flow from Nashpa during EWT is expected to commence by May 2010, the management expects the initial flow to remain in the vicinity of 4,000bpd. In addition, Mela-3 is likely to increase field's production by 2,500bpd of oil. Regarding Qadirpur compression project, the management expects the installation of 10 compressors by June 2010 enhancing field's production to 550mmcf of gas.

Qadirpur price resolution remains uncertain

The management declined to indicate any time frame for approval of Qadirpur's new pricing slabs agreed with the OGRA, as the final decision from ECC is yet to be announced.

Our stance: 'Hold' Recommended

At current levels, the stock is trading at FY10E and FY11F PE of 9.1x and 7.6x, respectively, and offers FY10 dividend yield of 6%. Therefore, we recommend 'Hold' on OGDC.

umer.ayaz@js.com
92 (21) 111-574-111 (ext. 3103)

Also in focus

T-Bills yields go up by 23-27bps

Following the inflationary pressures on the economy, yesterday's T-bill auction saw cut off yields go up by 23 to 27bps. Yield for the 6mth paper went up by 23bps to 12.28%, while yields for the 12mth and 3mth paper increased by 24bps and 27bps to 12.34% and 12.19% respectively. The central bank was able to raise Rs113bn against a target of Rs115bn.

HUBCO: 1HFY10 EPS at Rs2.4 per share

Hub Power company (HUBCO) has announced its 1HFY10 results today. As per details, the company recorded net profit of Rs2.8bn (EPS: Rs2.4), a growth of 70%. The growth in the company's profitability is mainly attributed to uptick in Hubco's tariff and higher indexation due to steep rupee depreciation. In addition, the company has also received production bonus on account of higher load factor in 2009. The company also announced interim cash dividend of Rs2.5 per share which is higher than market expectations. Currently, we maintain our 'Buy' stance on HUBCO.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800163
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS