

February 26, 2010

Pakistan Market

OGDC: Qadirpur price revised further

MORNING BRIEFING



KSE100 Index: Closing 9667.17 ↓ (-19.01)

Yesterday, OGRA revised upward the provisional wellhead price of Qadirpur to Rs227.68 per mmbtu (up 6.6%) for the period effective January 2010 to June 2010. We believe the rise is mainly backed by Rupee depreciation against US\$. The revision is significant as it signals that OGRA would continue to offer exchange benefits in field's provisional prices in coming revisions till the agreed discount slab is implemented. Resultantly, we have revised our earnings estimates and upgraded our target price of the stock to Rs129 per share.

Revision to improve earnings by Rs0.1 per share

Based on the new price of Rs227.68 per mmbtu, we expect OGDC to book incremental revenue of around Rs890mn in 2HFY10 leading to estimated profit rise of Rs0.1 per share (annualized incremental earnings of Rs0.2 per share).

Upgrading our earnings estimates for OGDC

Post the previous price revision, we assumed field's wellhead price to remain at Rs213 for the entire forecast period. However, after exchange benefit being offered in yesterday's price revision, we are now more comfortable assuming the effect of Rupee depreciation to continue on the provisional prices. Based on this, we upgrade our earnings estimates and hence the target price for OGDC to Rs129 per share.

Revised earnings estimates

(Rupees)	FY10E	FY11F	FY12F	TP
Previous EPS	12.8	15.3	16.3	126
New EPS	12.9	15.5	16.6	129

Source: JS Research

Pricing issue has more to offer

As per FY09 company accounts, OGDC has already agreed a discount table with the relevant authorities for wellhead prices till US\$400 per ton, however, the formal notification of extension in discount table is still awaited. The final resolution of this pending issue could be a significant positive trigger for the company. Though, the international HSFO prices are

currently hovering in the range of US\$550 per ton, the pricing would remain capped at US\$400 per ton (as the discount slabs are worked out till US\$400 per ton). Since, it is difficult to estimate the discount level to be applied on HSFO price at US\$400 per ton level; we have performed valuation sensitivity at various discount levels.

Valuation Sensitivity of discount over capped HSFO price

Discount over capped price	Wellhead price (Rs per mmbtu)	Valuation (Rs/share)
50%	416.7	150
55%	375.1	145
60%	333.4	141
65%	291.7	136

Source: JS Research

Since the current provisional price of Rs227.68 per ton is at a 72% discount to the proposed capped price of US\$400 per ton, we believe the final pricing arrangement would offer a discount of 65% at the cap price – the most conservative scenario in our sensitivity. Even in that case, our target price would reach Rs136 per share (17% upside from last closing).

Recommendation: 'Hold' maintained

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.

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Also in focus

UBL expected to post EPS Rs7.4 in 2009

United Bank Limited (UBL) is scheduled to announce its 2009 annual results on March 1, 2010. We expect the bank to post unconsolidated earnings of Rs8.26bn (EPS Rs7.4) as against earnings of Rs8.33bn (EPS Rs7.5), a decline of 1%YoY. Along with the results we anticipate the bank to announce a final dividend of Rs2.5/share and a bonus issue of 10%.

We expect Net Interest Income (NII) to show a steady growth in 4Q, with full year NII expected to be up 17%YoY to Rs33bn. NIM's for the year are expected to set in at 6.7%, on the back of peak spreads in the outgoing calendar year. This however will be shrugged off by 54% higher YoY provisions of Rs12.5bn. We estimate provisions for NPLs in particular will rise a massive 135% in 2009 to Rs10.6bn as UBL books higher provisions from both local as well as international loan book. UBL's international loan book accounts a 25% share of the total book, with 67% of the international book skewed towards UAE.

Non Interest Income is expected to register a decline of 7%YoY to Rs9.7bn, with lower fee income and fewer gains on forex dealings. Operating expenditures are also estimated to rise by 5%YoY, thus restricting profits in 2009.

We maintain our 'Hold' stance on the scrip which currently trades at a 2010F PBV and PE of 1.3 x and 7.6x.

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