

August 28, 2009

Pakistan Market**PPL: FY09 result review/ 'Buy'****MORNING BRIEFING**

KSE100 Index: Closing 8315.16 ↓ (-4.58)

Pakistan Petroleum Limited (PPL), in its FY09 financial results posted profits of Rs27.7bn (EPS Rs33.4), up 41% versus earnings of Rs19.7bn (EPS 23.8) in FY08. The company also announced 20% bonus shares and Rs3 per share final cash dividend with the results taking cumulative cash payout to Rs13 per share in FY09.

Total cash payout stood at 39% versus 2 year historical average payout of 55% mainly due to persisting circular debt trap in the energy chain. We maintain our 'Buy' recommendation on PPL with target price of Rs228/share and believe that the likely resolution of the circular debt would improve liquidity going forward. The scrip is trading at FY10 PE and dividend yield of 6.6x and 9.9%, respectively.

Earnings growth led by top line

The growth in company's bottom line was mainly supported by 35% revenue growth. Though oil revenues (crude oil +NGL+ condensate) of PPL dropped by 9% amid lower realized crude oil prices (approx. US\$58 per barrel compared to US\$85 per barrel in FY08), gas revenues rose by significant 43% on the back of improved wellhead gas prices of Sui and Kandhkot fields (higher by 56%YoY). Thus, sharp decline in oil prices during FY09 did not affect the overall revenues due to 1) higher share of gas in its hydro-carbon as gas prices are fixed for 6-months (time lag impact) and 2) 20% devaluation of Pak rupee against dollar which improved rupee based revenues. During FY09, though oil production remained flat, however, gas sales dropped by 3% (average 955mmcf) mainly due to decline in production from its famous Sui gas field.

Interestingly, the affect of higher field expenditure was mitigated through increase in other income.

Circular debt affecting liquidity

According to the FY09 financial statements, total receivables of the company have reached 27.8bn compared to last year's of Rs13.2bn. Sui Northern Gas (SNGPL) remained the major

debtor with 13.6bn (FY08: 5.1bn) followed by Sui Southern gas (SSGC) Rs8.8bn (FY08: 2.7bn), Wapda Rs3.5bn (FY08: 3bn) and Attock refinery (ARL) Rs1.8bn (FY08: Rs2.2bn). This is due to prevailing circular debt situation, driven mainly by power sector. As a result, total cash position of the company has greatly suffered. Total cash of the company is standing at Rs14.6bn (Rs17.6 per share) compared to Rs21.8bn (Rs26.3 per share). The company believes that the government would settle this amount soon.

Table: Financial Highlights

(Rs in mn)	FY09	FY08	Δ%
Net Sales	61,580	45,717	35%
Field expenditure	13,161	10,694	23%
Royalties	7,463	5,516	35%
Operating profit	40,956	29,506	39%
Other Income	4,150	3,092	34%
Finance cost	94	67	41%
Other expenses	3,103	2,085	49%
Profit Before Taxation	41,908	30,447	38%
Taxation	14,206	10,739	32%
Profit After Taxation	27,703	19,707	41%
Diluted EPS	33.38	23.75	41%

Source: Company Accounts

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Pakistan Petroleum Limited

Market Price: Rs204.45	Kats Code: PPL
Market Cap: Rs169.7bn (US\$2.0bn)	Bloomberg Code: PPL PA
1-yrs Avg. Daily Volume: 2.3mn shares, Rs404mn (US\$4.9mn)	Reuters Code: PPL.KA
1-year High/Low: Rs213.01/100.62	

Also in focus**Foreign reserves ease to US\$12.85bn**

As per data released by the SBP, foreign exchange reserves for the week ending Aug 22 dropped to US\$12.85bn from US\$12.96bn a week earlier. The State bank's reserves stood at US\$9.36bn while reserves held by commercial banks were recorded at US\$3.49bn. To recall, reserves are up by almost 95% since reaching a low of US\$6.6bn in Nov 08 on the back of an IMF loan programme and contained current account deficit.

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