JS Research

October 28, 2009

**Pakistan Market**

# E&P: Downward price revision in major gas fields

MORNING BRIEFING

KSE100 Index: Closing 9315.69 ↓ (-58.81)

OGRA has notified the revision of wellhead gas prices of 39 fields last evening. Under this revision, the wellhead gas prices have broadly declined by 0.14-33% on the back of fall in Arab Light and HSFO prices during Dec 2008-June 2009 versus June – Nov 2009 average oil prices. The major decline (28-31%) is reported in the wellhead gas prices of Kandhkot and Sui which are flag ship gas fields of PPL. However, out of 39 fields, wellhead gas prices of 12 fields have reported an increase of 1.8-15.9%.

## Major impact on PPL

Amongst the E&P companies, we believe PPL would be the major affectee of this revision. The annualized earnings decline would be around 18-22% for PPL followed by OGDC (5-6%) and POL (5%). Higher impact on PPL is mainly due to major revision in Sui and Kandhkot both of which contribute to more than 65% share in revenue. No notification has been issued regarding Qadirpur gas field as yet. These wellhead gas prices would be applicable effective July 2009. That said; the impact would be visible in 1QFY10 earnings.

## Outlook: 'Buy' PPL and POL

Since the recent price revision is inline with our expectations, we maintain our full year earnings projection of our sample E&P companies. With oil prices hovering around an average US$70 per barrel so far in the fiscal year, we might see an increase in well head gas prices, provided oil prices stay at current levels during next one month. We expect the market would initially react negatively to this news flow.

Despite the fact that PPL is expected to post earnings of decline in FY10, we believe the stock is still the cheapest in the E&P sector. PPL is trading at FY10 PE of 7.0x with a dividend yield of 11.2%. Moreover, the recent downward revision has a lower impact on POL since the company has a relatively higher oil share in its revenue profile. We maintain our 'Buy' stance on both PPL and POL while reiterating our 'hold' stance on OGDC at current levels.

**Table: Revision in wellhead gas prices (Major fields)**

| Field Name | Units | Effective Jul-09 | Effective Jan-09 | Δ% |
|---|---|---|---|---|
| Adhi | Rs.per mmbtu | 119.7 | 116.8 | 2% |
| Bhit | $ per mmbtu | 3.1 | 4.7 | -32% |
| Badin Deep Field: | $ per mmbtu | 2.8 | 4.2 | -33% |
| Badar | $ per mmbtu | 2.3 | 2.4 | -1% |
| Bhadra | $ per mmbtu | 3.1 | 4.7 | -32% |
| Chachar | $ per mmbtu | 2.5 | 2.5 | 2% |
| Chanda | $ per mmbtu | 2.7 | 2.7 | 0% |
| Dakhani | Rs.per mmbtu | 120.1 | 116.0 | 3% |
| Daru | Rs.per mmbtu | 105.5 | 102.0 | 3% |
| Dhodak | Rs.per mmbtu | 239.9 | 231.8 | 3% |
| Dhurnal | Rs.per mmbtu | 21.7 | 23.3 | -7% |
| Kandkot | Rs.per mmbtu | 120.8 | 168.1 | -28% |
| Meyal/Dhulian | Rs.per mmbtu | 104.6 | 101.6 | 3% |
| Miano | $ per mmbtu | 2.9 | 4.3 | -32% |
| Mela | $ per mmbtu | 2.7 | 2.7 | 0% |
| Manzalai | $ per mmbtu | 2.7 | 2.7 | 0% |
| Pariwali | $ per mmbtu | 3.1 | 4.7 | -32% |
| Pindori | $ per mmbtu | 3.1 | 4.7 | -32% |
| Ratana | Rs.per mmbtu | 325.2 | 345.8 | -6% |
| Sadkal | Rs.per mmbtu | 343.0 | 510.3 | -33% |
| Sawan | $ per mmbtu | 2.9 | 4.3 | -32% |
| Sui | Rs.per mmbtu | 115.7 | 168.1 | -31% |
| Turkwal | $ per mmbtu | 3.1 | 4.7 | -32% |
| Uch | $ per mmbtu | 3.9 | 3.9 | 0% |

*Source: OGRA*

farhan.mahmood@js.com
92 (21) 111-574-111 (ext. 3103)

## Also in focus

### KSA agrees on US$100mn urea credit facility

According to news reports Saudi Arabia (KSA) has confirmed a credit facility of US$100mn to Pakistan for purchasing urea on deferred payment. We believe this facility would ease the imports of urea to provide for the shortage which the country already faces. This can bode well for the agriculture sector going forward as the sowing season for the kharif crops starts in January and February.

**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

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

**Fixed Income Sales:**
Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@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

This report has been prepared for information purposes by the Research Department of JS Global Capital Ltd. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors who should seek further professional advice or rely upon their own judgment and acumen before making any investment. This report should also not be considered as a reflection on the concerned company's management and its performances or ability, or appreciation or criticism, as to the affairs or operations of such company or institution. Warning: This report may not be reproduced, distributed or published by any person for any purpose whatsoever. Action will be taken for unauthorized reproduction, distribution or publication.