

June 29, 2010

**Pakistan Market****MORNING BRIEFING**
**E&P: Oil & Gas production remained flat in 11MFY10** KSE100 Index: Closing 9671.55 ↓ (-125.30)

Based on provisional production statistics released by PPIS (Pakistan Petroleum Information Services), the country's total oil and gas production during the first 11 months of FY10 has stood at 707kboepd (thousand barrels of oil equivalent per day), staying almost flat when compared to the same period last year. Local gas production stood at 4bcfd (billion cubic feet per day) depicting a growth of around 1%YoY, the impact was more than offset by a 3% fall in local oil production declining to 64kbpd (thousand barrels per day), from 66kbpd last year.

**OGDC: Production down 4%YoY**

OGDC's (Oil and Gas Development Company) combined oil and gas production in the period stood at 195kboepd, as against 202kboepd in 11MFY09. Oil production alone posted a decline of 8% as it stood at 38.5kbpd versus 41.6kbpd in the same period last year. This fall in production was mainly due to lower oil production from Bobi, Chanda, Kunar, Sono and Buzdar fields. Similarly, the company's gas production fell to 975mmcf (million cubic feet per day), a decline of 2%YoY mainly led by lower production from Qadirpur and Uch fields.

**PPL: Production flat at 158kboepd**

Total oil & gas production of PPL (Pakistan Petroleum Limited) when compared to last year remained flat at 158kbped. Company's gas production witnessed a dip of 0.5%YoY and stood at around 954mmcf in 11MFY10. Although, new production flows from Manzalai, Tajjal and Latif came online during the period, the impact was offset by a natural decline in gas production from Sui field (down 6%YoY). On the contrary, PPL's oil production during this period registered a growth of 9%, raising the oil production to 4.5kbpd against 4.1kbpd in the corresponding period last year.

**POL: Production up 13%YoY**

Combined oil and gas production of POL (Pakistan Oilfields Limited) rose to 11.3kbped as against 10kbped in the same

period last year, posting a growth of 13%YoY. Company's gas production during the period stood at 45mmcf (up 17%) while average oil production also increased by around 7% to 4.2kbpd. The growth in production is mainly attributed to recovery in oil production from Pindori and commencement of commercial oil and gas flows from Manzalai in 2QFY10. The oil and gas production flow from the field is currently hovering around 4,600bpd and 260mmcf, respectively.

**Outlook: 'Over-weight' maintained**

We believe the current lackluster production performance of the sector would be short lived as new production flows from Maramzi and Mamikhel coupled with improved production levels, from Qadirpur, Mela, Nashpa and other recent discoveries would ramp up the production profile of the listed E&P companies in the next fiscal year. Moreover, any new discovery in the upcoming months would lead to a potential reserves addition and earnings upside for the sector.

At current levels, E&P sector is trading at FY11F PE of 7.7x and offers FY11F dividend yield of 8.7%. At these levels, we maintain our 'Over-weight' stance on the sector with 'Buy' recommendation on PPL and POL and 'Hold' on OGDC.

umer.ayaz@js.com

92 (21) 111-574-111 (ext. 3103)

**Also in focus****ECC likely to decide on PTA duty today**

In its meeting today the ECC is likely to review the import duty protection on PTA and possibly reduce the rate from 7.5% to 3%. We believe, this would be negative for LOTPTA's earnings going forward, as a cut in duty to 3% would reduce the company's 2010E EPS to Rs1.61 from Rs1.96, and subsequently our target price to Rs5 from Rs9 earlier.

**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

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