October 29, 2009
Pakistan Market

MORNING BRIEFING

PPL: 1QFY10 result preview

KSE100 Index: Closing 9251.84 ↓ (-63.85)

Finally, with wellhead gas prices been announced by OGRA. We present our 1QFY10 earnings expectation for PPL. The company is expected to announce profit of Rs5.0bn (EPS Rs5.1) during 1QFY10 compared to net earnings of Rs7.8bn (EPS Rs7.8) last year, down 35%YoY. This decline in earnings is expected mainly due to reduction in oil and wellhead gas prices.

However, we expect slight recovery in the earnings during 2HFY10. This is primarily due to additional gas supply from Manzalai which could partially offset any slide in oil prices. Currently, trading at FY10 PE of 6.8x versus sector PE of 8.0x, the stock is still cheapest amongst the listed E&P companies. Therefore, we maintain our 'Buy' stance on PPL at current levels.

Net sales expected to decline by 25%

We expect net sales of the company to register sharp decline of 25% to Rs11.9bn. This is primarily due to approx. 33% decline in oil prices and 14% decline in weighted average wellhead gas prices. Last year, oil prices were abnormally high at appx.US$115 per barrel where as average oil prices during 1QFY10 stood at US$69 per barrel. Moreover, well head gas price of Sui/Kandhkot which contribute to 70% of the overall revenues, have dropped by 17%.

Besides decline in wellhead gas prices, 7% decline in gas off take is another major reason behind decline in revenues, we believe. According to provisional numbers notified by PPIS, oil and gas production of the company stands at approx.4k barrels per day (down 1%) and 905mmcfd (up 3%YoY) during the period respectively.

Moreover, we expect exploration expenditure of the company to reach at Rs2.8bn versus Rs2.4bn last year, up 24%YoY. Secondly, a 38% reduction in other income is also expected to dilute the bottom-line. This is due to lower interest rates and reduced cash balance held by the company.

FY10 EPS expected at Rs25.9

Since PPL revenues are predominantly gas based, oil prices during the period 2009 would be relevant for FY10 given the six month lag well head gas price mechanism During 2009, average crude oil price stood at US$60 per barrel where as we expect oil prices to revert back to average US$57 per barrel by the end of year 2009 (also inline with Reuters oil poll). However, the risk of oil price would be mitigated once 250mmcfd gas additions from Manzalai would be online which could partially offset the sharp decline in dollar price of crude. Thus, we expect FY10 earnings to be at Rs25.9, down 7%YoY. Nonetheless, we believe the stock is still cheapest amongst the local E&P companies on one year forward PE of 6.8x. We maintain 'Buy' stance on PPL at current levels.

Table: Financial Highlights

(Rs mn)	1QFY10E	1QFY09A	Δ%
Net sales	11,894	15,805	-25%
Field expenditure	2,950	2,385	24%
Royalty	1,439	1,927	-25%
Operating profit	7,504	11,494	-35%
Other Income	770	1,242	-38%
Finance cost	16	23	-29%
Other expenses	750	851	-12%
PAT	5,031	7,766	-35%
EPS	5.1	7.8	-35%

Source: JS Research & Company accounts

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

Also in focus

PSMC increases car prices by Rs15,000

Following the price increases by Indus Motor Company (INDU) and Honda Atlas (HCAR), Pak Suzuki Motor Company (PSMC) has also increased its car prices by Rs5,000-15,000 effective November 1, 2009. The increase in prices has come in order to account for higher cost pressures and rupee depreciation against Yen.

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