PPL: Robust 1H; stronger 2H ahead

- **While PPL posted a strong set of numbers with 1H FY12 EPS of PRs15.3/sh and DPS of PRs5, the results carried a nominal negative surprise.**
- **21% bottom line growth is mainly driven by higher sales and other income. We maintain our full year estimates (1H EPS constitutes 46% of our FY12 estimate).**
- **Backed by higher oil & gas prices and 43% growth in oil production, sales grew by 21% YoY in 1H. QoQ sales are flat, a key surprise considering volume growth of 2%. We are not overly concerned on 22% higher opex YoY.**
- **We flag higher 2H earnings on combination of (1) production addition and (4) improved realized prices (Rupee devaluation + gas price hike).**
- **Market concern on potential supply overhang from government divestment appears to be partially addressed due to recent efforts by different stakeholders to sort out the liquidity issues at KSE.**

Robust 1H results despite few surprises; reiterate Buy

While Pakistan Petroleum Ltd posted a strong set of numbers with 1H FY12 EPS of PRs15.3/sh and DPS of PRs5, the results carried a nominal negative surprise with consensus forecast staked up at PRs15.5-15.6. 21% bottom line growth is mainly driven by higher sales and other income. We maintain our full year estimates (1H EPS constitutes 46% of our FY12 estimate) and flag stronger 2H. PPL remains our preferred pick with FY12E P/E of 5.5x and EV/EBITDA of 3.1x.

Key highlights of 1HFY12 results

Sales rose 21% YoY backed by 17-18% wellhead gas price jump on key fields and 41% higher oil price. 1H oil production is estimated have grown by 43%. QoQ sales are flat, a key surprise considering volume growth of 2%. We suspect higher shrinkage factor.

We are not overly concerned on 22**% higher operating cost** YoY as drilling and seismic cost are the key contributors. We see further spike in operating cost in 2H on account of dry wells, currently capitalized but likely to be expensed out in future.

Interest income is up 87% YoY and contributed 12% to pre-tax income. Encouragingly, receivables are flat QoQ at PRs40bn despite worsening of cash flow position among energy peers. We estimate PPL has booked PRs100-125mn gains from movement of FX.

Effective tax rate has dropped to 28% in 2Q (1H 30%, compared to five year average of 34%) which is a result of higher drilling and seismic cost.

Stronger 2H on the horizon

Our thesis of stronger 2H earnings is premised on (1) 4-5% higher gas prices, (2) impact of production addition made in late 2Q on Sui, Kandkot and Nashpa II, (3) volume growth from new find in Makori East (overall, volume growth of 3% in 2H) and (4) rupee depreciation. Production from Nashpa III poses a key upside risk to our numbers. We see low risk around the expected gas price hike given unique gas price mechanism (Arab light average of US$108/bbl during May11-Nov11, up 4%).

Concern on Secondary Offering abating

Market concerns on potential supply overhang from government's divestment plans appear to be partially addressed due to recent efforts by different stakeholders to sort out liquidity issues at KSE. Improved company fundamentals also helped in share price performance of 9% from its low. Though the government is yet to come up with a firm plan for divestment (timing, pricing and structure) we maintain end 3Q or early 4Q offers suitable time for secondary offering (2.5% of GoP holding).

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Current Price	**PRs178.26**
Price Objective	**PRs244.96**
KATS	PPL
Bloomberg	PPL PA
Reuters	PPL.KA

Shares Outstanding
1,314.48mn

Market Cap
PRs234,318mn (USD2,598.92mn)

3m average daily volume
520,605 shares

12M High / Low
207.02/167.81

Stock Performance

	1M	3M	12M
Absolute%	5.6	1.7	-9.0
Rel Index%	-0.2	-2.0	-4.9
Abs. (PRs)	9.4	3.0	-17.6

PPL-1HFY12 results review

PRsmn	1HFY12	1HFY11	YoY
Sales	**45,257**	**37,415**	**21%**
Operating costs	12,168	9,979	22%
Royalties	5,387	4,434	21%
EBIT	**29,026**	**23,218**	**25%**
Net Interest	3,371	1,800	87%
Pre-tax profit	28,936	23,109	25%
NPAT	**20,113**	**16,618**	**21%**
Key Measures			
EPS(PRs)	15.3	12.6	21%
DPS(PRs)	5	9	-44%
Production*			
Oil (bpd)	7849	5500	43%
Gas (mmcfd)	931	907	3%
Total (mmboe)	29.3	28.2	4%
Realized prices*			
Oil (US$/bbl)	104	74	41%
Gas US$/mmcf	2.3	2	12%

Source: PPL, KASB Estimates

Refer to important disclosures on page 3

Morning News

- **Cut-off yields decline by 16-20bps in T-bill Auction** **(Analyst Comment)**

In yesterday's T-bill Auction, the government managed to raise PRs125bn, exceeding the target of PRs75bn, backed by heavy participation (PRs297bn). The Ministry of Finance accepted PRs45.4bn/PRs32.5bn/PRs47.0bn against 3M/6M/12M T-bills with cut-off rates at 11.60%/11.63%/11.73% (down 16-20bps). Participation was skewed towards 12M T-bill (PRs128bn) which indicated banks' expectations of a rate cut in the near term.

Technical View

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KSE-100: Re-test of former breakout trendline likely

The index registered a lower high and a lower low and has now come below the upper Bollinger Band, which had initially triggered the correction.

The Stochastic Oscillator has reversed and has once again generated a sell signal. On the other hand, the MACD maintains its uptrend as well as buy signal.

We maintain our stance of accumulating on weakness.

KSE-100 Intra-day Movement

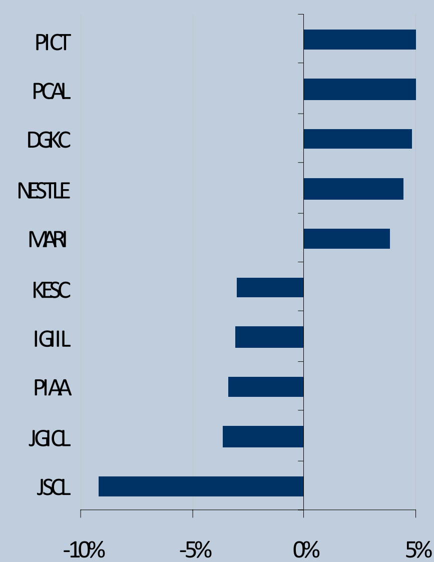
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US$mn
KSE30	11,132.12	-0.44%	43.57
KSE100	11,949.75	-0.35%	48.12
KSE All Share	8,279.89	-0.32%	49.77
POL	365.37	-0.20%	7.50
FFC	176.18	0.44%	6.44
ENGRO	114.10	-1.71%	5.50
LUCK	85.77	0.93%	4.06
DGKC	23.18	4.84%	3.57

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,329.10	42.70	1.00
Shanghai Composite*	2,319.12	23.04	1.00
Hang Seng*	20,110.37	167.42	0.84
BSE 30	17,077.18	81.41	0.48
Jakarta Composite	3,963.60	-30.98	-0.78
KLSE Composite	1,519.76	-2.90	-0.19
Nikkei 225	8,883.69	98.36	1.12
NZSE 50	3,280.10	11.93	0.37
Straits Times	2,891.64	42.26	1.48
Seoul Composite	1,952.23	2.34	0.12
Taiwan Weighted (18th Jan)	7,233.69	0.00	0.00
KSE-100 Index	11,949.75	-41.63	-0.35

Source: Bloomberg *20th Jan closing

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,063.83	10.09	0.49
BEL-20	2,194.53	1.66	0.08
CAC 40	3,312.48	-10.17	-0.31
DAX	6,421.85	2.63	0.04
AEX General	319.44	-1.53	-0.48
Swiss Market	6,073.36	-61.74	-1.01
FTSE 100	5,723.00	-28.90	-0.50
American Markets			
Dow Jones Ind. Average	12,756.96	81.21	0.64
NASDAQ Composite	2,818.31	31.67	1.14
NASDAQ -100	2,465.66	31.70	1.30
S&P 500 Index, RTH	1,326.05	11.40	0.87

Foreign Portfolio Investment in Equities

Country	Day (US$mn)	WTD (US$mn)	MTD (US$mn)	YTD (US$mn)	YTD Net (US$mn)	Date
Pakistan	1.8	5.6	(4.7)	(4.7)	n.m	25-01
India	181.9	179.4	1,560.5	1,560.5	306.7%	24-01
Indonesia	(34.9)	(23.0)	413.8	413.8	230.7%	25-01
Japan	Na	1,816.3	1,816.3	1,816.3	-74.5%	13-01
Philippines	0.7	128.4	378.0	378.0	504.0%	25-01
South Korea	832.9	832.9	4,497.0	4,497.0	348.9%	25-01
Taiwan	119.8	105.7	1,029.4	1,029.4	-94.8%	18-01
Thailand	5.3	11.9	(46.0)	(46.0)	95.1%	24-01
Vietnam	(12.4)	(30.2)	(106.4)	(106.4)	-388.2%	20-01

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	11.85	11.86	-0.01
12-M T-Bill (Average)	11.66	11.72	-0.06
10- year PIB (Average)	12.24	12.24	0.00
PkR/ US$	90.16	90.21	-0.05

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	99.13	0.38	0.38
Gold	1710.57	44.89	2.69
CRB Index (25th Jan)	316.37	1.68	0.53

Source: Bloomberg

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