

### OGDC: Significant addition of volume from KPD

- We reckon Oil & Gas Development Company (OGDC) is poised to deliver strong volume growth in FY12 and beyond (3-year volume CAGR of 13%) with the addition of 100mmcf/d gas production from KPD from 12<sup>th</sup> Jan.
- The first phase of production start of 100mmcf/d from KPD represents 10% of OGDC's gas volumes and will have annual impact of PRs1.3/sh on OGDC's bottom line (6% of FY12 EPS).
- KPD adds ~3% to the country's production and comes online at a time when the govt. is struggling to meet a large deficit in gas supply in peak winter season.
- While the stock has corrected 12% since 2<sup>nd</sup> Jan, we believe recent volume addition coupled with 2Q strong results can calm the nerves with the focus shifting to the company's fundamentals.
- We see another quarter of strong earnings in 2Q for OGDC with EPS estimated at PRs4.98 (1H PRs10.07, up 37% YoY) and expect 2Q DPS of PRs2 (1H: PRs3.5).

#### Significant gas production addition realized; reiterate Buy

We reckon Oil & Gas Development Company (OGDC) is poised to deliver strong volume growth in FY12 and beyond (3-year volume CAGR of 13%) with the addition of 100mmcf/d gas production from KPD from 12<sup>th</sup> Jan, following material oil volume addition from Nashpa II in Nov. Importantly, the strong focus of the government and the management on development of fields on fast track basis should translate into limited future delays. We see further volume triggers ahead in OGDC. While the stock has corrected 12% since 2 Jan on combination of not-so impressive newsflow on Zin and overall political events (23% of KSE-100 index), we believe recent volume addition coupled with 2Q strong results can calm the nerves with the focus shifting to the company's fundamentals. OGDC currently trades at FY12E P/E of 6.2x and D/Y of 6%. We reiterate Buy with PO of PRs168.34/sh.

#### KPD adds 10% to OGDC's production...

The first phase of production start of 100mmcf/d from Kunar Passaki Deep (KPD) represents 10% of OGDC's gas volumes. The field will also produce 1100bpd of oil and will have a cumulative annual impact of PRs1.3/sh on OGDC's bottom line (6% of FY12 EPS). We see further addition of production volume from KPD via (1) OGDC targets to produce 130tpd LPG from KPD. The project is likely to come online within three months and may pose nominal upside to our estimates, and (2) field's production would rise by another 200mmcf/d in second phase, slated to be completed by 2013-14.

#### ...and 3% to country's gas production

KPD adds ~3% to the country's production and comes online at a time when the government is struggling to meet a large deficit in gas supply in peak winter season. The current winter season gas supply deficit is quoted at 1.6bcf/day or 38% of supplies. Reports suggest the production would be equally distributed between the two gas distributors (SNGPL and SSGC) and will be diverted to power and industrial sectors.

#### 2Q results; strong earnings growth

With strong oil prices and firm production volumes, we see another quarter of strong earnings in 2Q for OGDC (date is yet to be announced). We estimate 2Q EPS of PRs4.98 (1H PRs10.07, up 37% YoY) and expect 2Q DPS of PRs2 (1H: PRs3.5). Whilst exploration cost is likely to pick up QoQ, compared to historical trends, overall cost would still be low. Receivables build-up (quoted at PRs122bn versus PRs93bn in 1Q) remains our key concern, though it is unlikely to have significant impact on expected cash payout in 2Q and FY12 given strong earnings growth.

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Current Price PRs133.85  
Price Objective PRs168.34

KATS OGDC  
Reuters OGDC.KA  
Bloomberg OGDC PA

Shares Outstanding  
4300.93mn

Market Cap  
PRs575,679mn (USD6,378.01mn)

12-month High/Low  
159.41/120.29

#### Stock Performance

	1M	3M	12M
Absolute %	-15.0	-4.0	-21.8
Rel. Ind %	-10.0	5.5	-10.6
Abs. (PRs)	-23.6	-5.6	-37.3

#### OGDC-Financial Highlights (Year to June)

PRsmn	2011A	2012E	2013E
Sales	155,631	205,707	223,817
% Δ	9.1%	32.2%	8.8%
PAT	63,527	92,759	101,537
% Δ	7.4%	46.0%	9.5%
EPS (PRs)	14.8	21.6	23.6
PER(x)	9.1	6.2	5.7
PBV	2.9	2.2	1.8
ROE	32%	36%	32%
D/Y (%)	4.1%	5.9%	7.4%

Source: KASB Estimates

Morning News

SECP forwards tax proposals for capital market (BR, Tribune)

As per newspaper reports, the Securities and Exchange Commission of Pakistan (SECP) has proposed the Federal Board of Revenue to consider new taxation proposals for development of capital market and corporate sector. This includes revising the current mechanism of capital gains tax collection, major reduction in corporate tax rate and increase in the tax rates on the National Saving Schemes (NSS) to channel funds towards other productive avenues of the economy. On the CGT issue, which remains a key issue for the KSE, the SECP has proposed the FBR to collect the CGT on traded stocks at the level of National Clearing House and not on transactions made in the market on day to day basis. In another related proposal, the SECP is also considering providing amnesty scheme to investors/brokers, details of which are being fine tuned, as per the report.

Technical View

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KSE-100: Formation indicates continued consolidation

The index's recovery from its day's low suggests that there is support around lower levels. This has resulted in the index creating a hammer, which is marginally bullish.

The Stochastic Oscillator continues to improve and maintains its buy signal having just cleared the oversold region. This makes its formation a bullish divergence.

We maintain our stance of accumulating on weakness.

KSE-100 Intra-day Movement



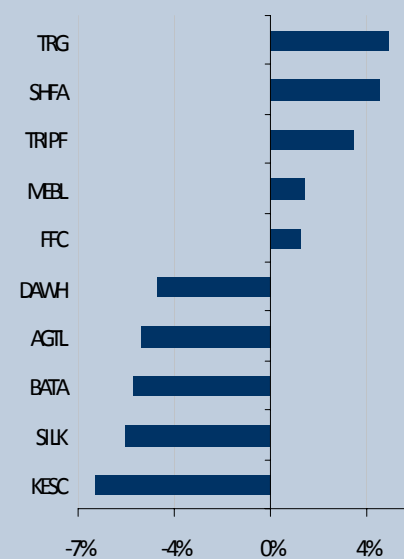
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	10,060.65	-0.08%	9.63
KSE100	10,909.12	-0.20%	10.39
KSE All Share	7,575.14	-0.17%	10.56
FFC	160.71	1.09%	3.05
FFBL	43.29	-0.18%	1.28
ENGRO	94.41	-1.15%	1.00
NBP	41.81	-2.50%	0.91
POL	343.25	-0.10%	0.67

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	4,238.40	-4.50	-0.11
Shanghai Composite	2,275.01	-1.04	-0.05
Hang Seng	19,095.38	-56.56	-0.30
BSE 30	16,037.51	-138.35	-0.86
Jakarta Composite	3,909.50	-0.14	0.00
KLSE Composite	1,525.56	3.27	0.21
Nikkei 225	8,385.59	-62.29	-0.74
NZSE 50	3,219.83	-16.70	-0.52
Straits Times	2,743.66	-3.47	-0.13
Seoul Composite	1,864.57	19.02	1.03
Taiwan Weighted	7,186.58	-1.63	-0.02
<b>KSE-100 Index</b>	<b>10,909.12</b>	<b>-21.37</b>	<b>-0.20</b>

Source: Bloomberg

#### European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	1,915.17	21.20	1.12
BEL-20	2,137.42	-2.90	-0.14
CAC 40	3,199.98	-4.85	-0.15
DAX	6,179.21	26.87	0.44
AEX General	310.30	-1.35	-0.43
Swiss Market	6,018.07	10.03	0.17
FTSE 100	5,662.42	-8.40	-0.15
<b>American Markets</b>			
Dow Jones Ind. Average	12,471.02	21.57	0.17
NASDAQ Composite	2,724.70	13.94	0.51
NASDAQ -100	2,381.99	9.74	0.41
S&P 500 Index, RTH	1,295.50	3.02	0.23

#### Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	0.2	(0.5)	(7.2)	(7.2)	n.m	12-01
India	96.1	176.1	387.2	387.2	174.5%	11-01
Indonesia	(3.9)	(14.3)	187.6	187.6	177.4%	12-01
Japan	Na	745.9	(5,744.6)	(323.4)	-101.4%	30-12
Philippines	32.3	122.5	189.4	189.4	493.4%	12-01
South Korea	142.4	161.6	475.9	475.9	-66.1%	12-01
Taiwan	185.7	594.0	600.1	600.1	-61.8%	12-01
Thailand	(39.6)	(82.9)	(79.1)	(79.1)	72.5%	12-01
Vietnam	1.3	(78.2)	(77.7)	(77.7)	-719.4%	12-01

Source: Bloomberg, NCCPL

### Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	11.94	11.95	-0.01
12-M T-Bill (Average)	11.84	11.87	-0.03
10- year PIB (Average)	12.50	12.48	0.02
Pkr/ US\$	90.26	90.00	0.26

Source: KASB Money Market

### Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	99.10	-1.77	-1.75
Gold	1650.25	8.28	0.50
CRB Index (12 <sup>th</sup> Jan)	309.86	-3.75	-1.20

Source: Bloomberg

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