Company Update

Pakistan Petroleum Limited

1HFY12 Result Preview

January 20, 2012

22%Y/Y Earnings Uptick, Begs For Attention

The board of directors of PPL is to meet on Jan 26th, 2012 to announce 2QFY12 results. We estimate PPL to post PAT of PKR10,341mn (EPS: PKR7.87) for the 2QFY12 against the PAT of PKR8,829mn (EPS: PKR6.72) for the corresponding period in the prior year. Cumulative earnings for the 1HFY12 is expected to depict staggering acceleration of 22%YoY to PKR20,227mn (EPS: PKR15.39). Uptick in profitability on sequential basis stems from higher production of both oil and gas along with devaluation of PKR against greenback, whilst Arabian Gulf Light Oil price remained stable to average USD109/bbl at par with 1QFY12 levels. We expect the board to announce PKR5.0/share cash payout with the half yearly results.

Production To Lift The Earnings In 2QFY12

We expect topline to lift by 27%Y/Y but more importantly 8%Q/Q driven by higher production of both Oil (5%Q/Q) and Gas (7%Q/Q) along with depreciation of PKR by 2.82% during the period under review. Boost in production came from Sui, Adhi and Nashpa field whilst WHP of gas and realized oil prices remained flat on Q/Q basis.

We expect field expenditures to be up by 6%Q/Q owing to higher seismic data acquisition while drilling at exploratory well Bhit Shah x-1 in Hala block (PPL Stake: 65%) was suspended. Other income is also likely to witness slight contraction to PKR1.4bn owing to lower market yields.

What's In Store For 2HFY12?

Production from Nashpa-2 (PPL Stake: 26.05%) commenced during last week of Dec '11 flowing at Oil-4500b/d and Gas-11mmcf/d. The Production from the field for the 2HFY12 would contribute to an incremental impact on earnings of PKR0.65/share at current oil price avg. Furthermore, we expect PPL to reap the most benefit from uptick in gas WHP for 2HFY12 as gas production from uncapped Sui and Kandkhot fields constitutes the lion's share 60% of the overall gas sales which is expected go up by 9%H/H. Therefore we expect earnings for the 2HFY12 to out beat the 1HFY12.

Earnings Summary

(PKR in mn)	2Q12E	2QY11A	Change	1HFY12	1HFY12	Change
Net Revenue	24,440	19,197	27%	47,087	37,416	26%
Field Expenditure	6,022	5,573	8%	11,715	9,979	17%
Royalty	2,933	2,271	29%	5,626	4,434	27%
Other Income	1,404	959	46%	2,989	1,910	56%
Other Charges	1,184	842	41%	2,275	1,715	33%
EBT	15,668	11,426	37%	30,386	23,109	31%
Taxation	5,327	2,597	105%	10,159	6,491	57%
PAT	10,341	8,829	17%	20,227	16,618	22%
EPS	**7.87**	**6.72**		**15.39**	**12.64**	

Source: Company Reports and HMFS Research

Note: Please refer to the last page for Analyst Certification and other important disclosures.

Market Data

KATS Code :	PPL
Current Price (PKR) :	172.25
52 Week Hi (PKR) :	205.10
52 Week Low (PKR) :	163.96
Avg Turnover :	0.67mn
Free Float :	21%
Share in Issues (PKR) :	1,314.48mn
Market Capitalization (PKR) :	226.42bn

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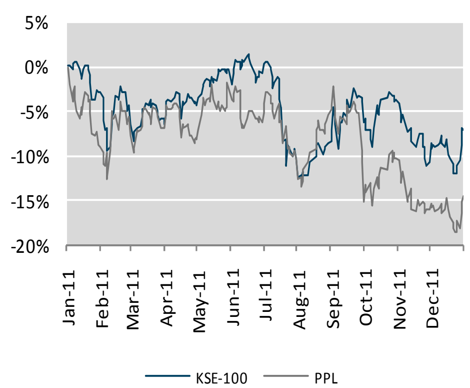
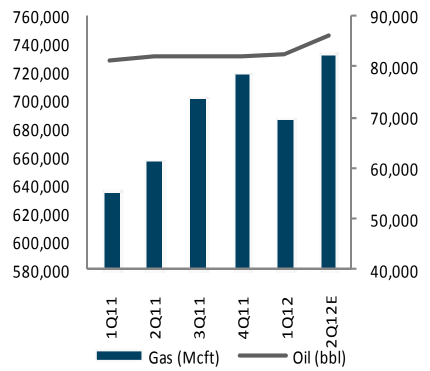
Relative Performance



Source: HMFS Research

Production Trend



Source: PPIS & Company Accounts

Investment Perspective

PPL is one of our top picks for CY12 begging for attention with an upside potential of 56% from our Dec '12 target price of PKR268/share. We estimate PPL to post EPS of PKR30.39 on our base case assumption whereas current trend in oil price and PKR depreciation raises our estimates to PKR33.25 for FY12E. Stock is trading at an attractive forward PER multiple of 5.67x and offers a dividend yield of 8%. We recommend a **Buy** on the stock.

Analyst Certificate

The research analyst denoted AC on the cover of the report on with the name of analyst who has written the report. The analysis and views express in this report exclusively reflect his/her personal views about the subject, company or security. Furthermore his/her compensation was, is or will not be directly related to the recommendation or views articulated in this report. The information provided in this report is based on information available to the analyst and in accordance with best of his/her knowledge.

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