

## Grapevine E & P

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### Qadirpur Wellhead Gas Revision – OGDC EPS revised upwards by 7-11%

- According to a notice just issued by the OGDC, the company has disclosed the provisional revised wellhead gas prices for its key gas producing field, Qadirpur
- While the prices still need to be finalized by the Economic Coordination Committee (ECC), our discussions with the management reveal that the final prices will be very close to those announced via the notice
- Based on OGDC's and PPL's respective ownership stakes of 75% and 7% in Qadirpur field, the aforementioned notification is projected to result in one-time gain of PKR0.92/share and PKR0.16/share for OGDC and PPL, respectively
- Moreover, after incorporating possible further upwards revision due to continued weakness in PKR/USD, our EPS projections for OGDC are being revised upwards by 7-11% for FY10-FY12E while our NAV based fair value for the stock now stands at PKR139/share (up 5%). BUY!
- For PPL, the bottomline is being revised upwards by 2-3% for FY10-FY12E while our NAV based fair value stands at PKR236/share. BUY!

According to a notice just issued by the Oil and Gas Development Company Limited (OGDC), the company has disclosed the provisional revised wellhead gas prices for its key gas producing field, Qadirpur. While the prices still need to be finalized by the Economic Coordination Committee (ECC), our discussions with the management reveal that the final prices will be very close to those announced via the notice.

#### Provisional Wellhead Gas Prices for Qadirpur Field (PKR/mmbtu)

	Previous	Revised	Chg
2HFY08	161.02	167.06	3.8%
1HFY09	161.02	185.96	15.5%
2HFY09	161.02	213.59	32.6%
1HFY10	161.02	213.17	32.4%

Source: BMA Research

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#### Retrospective EPS impact on OGDC

	Field Prod (mmcf/d)	OGDC share (75%)	Per share impact (PKR)
2HFY08	550	412.50	0.04
1HFY09	542	406.79	0.17
2HFY09	568	425.78	0.37
1HFY10	540	405.00	0.35
Cumulative retrospective impact			<b>0.92</b>

Source: BMA Research

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### Retrospective EPS impact on PPL

	Field Prod (mmcf)	PPL share (%)	Per share impact (PKR)
2HFY08	550	38.50	0.04
1HFY09	542	37.97	0.04
2HFY09	568	39.74	0.04
1HFY10	540	37.80	0.04
Cumulative retrospective impact			<b>0.15</b>

Source: BMA Research

However more importantly, the announcement also raises the likelihood of further upwards revision in Qadirpur's wellhead gas prices. While the discount table extension and revised caps are yet to be announced to the public, taking into account just the recent PKR depreciation against the USD results in a prospective wellhead gas price of PKR221/mmbtu for 2HFY10.

Based on these projections, our EPS forecasts for OGDC are being revised upwards by 11%, 7% and 8% for FY10E, FY11E and FY12E respectively. For PPL, the bottomline is being revised upwards by 2%, 2% and 3% for FY10E, FY11E and FY12E respectively.

### Revised EPS forecasts for OGDC (PKR/share)

	FY10E	FY11E	FY12E
Revised	13.8	14.5	17.2
Previous	12.4	13.6	16.0
Change	1.42	0.95	1.28
Change	11%	7%	8%

Source: BMA Research

### Revised EPS forecasts for PPL (PKR/share)

	FY10E	FY11E	FY12E
Revised	23.9	28.6	29.8
Previous	23.4	28.0	29.0
Change	0.51	0.56	0.87
Change	2%	2%	3%

Source: BMA Research

Additionally, with Qadirpur field accounting for ~30% of OGDC's topline, the aforementioned announcement also results in an upward revision of 5% to our NAV based fair value of PKR132/share to PKR139/share. BUY!

### Background of the issue

Qadirpur Gas Sales Agreement had originally defined discount slabs for the benchmark HSFO up to USD200/ton with a clause stating that the slabs will be renegotiated if HSFO prices exceed USD200/ton. As a result in 2006 (when the benchmark prices were indeed above USD 200/ton), OGRA notified a price of PKR162.5/mmbtu for the field. Since then the issue has been pending with all the stakeholders trying to reach a consensus on extension of discount slabs and renegotiation of an appropriate price cap on the benchmark.

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The last Wellhead gas price notified for Qadirpur was in July 2007 when the price was set at PKR 161.0/mmbtu. In the absence of any settlement of the issue, no further price notifications were released for the field leaving no choice but to book revenues based on July07 prices for OGDC, PPL and other companies.