

# Day Break

Friday, 13 April 2018



## Sector Update

### IGI E&P Universe

#### Recommendation

	TP (PKR/share)	Recom.	Upside	P/E
MARI	2,094.1	BUY	37.6%	10.8
PPL	235.6	HOLD	8.8%	9.7
OGDC	185.1	HOLD	4.4%	10.0
POL	621.9	SELL	-10.8%	16.2

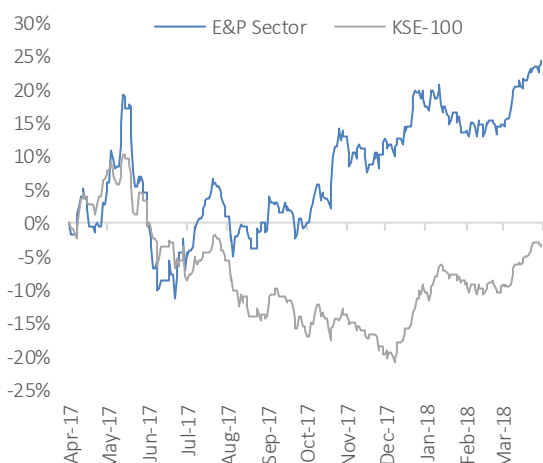
#### EPS estimate for 3QFY18

	3QFY18E	YoY	9MFY18E	YoY
MARI	38.21	149%	100.03	75%
PPL	6.14	66%	17.31	79%
OGDC	4.82	18%	2.11	128%
POL	14.5	22%	34.7	10%

#### DPS estimate for 3QFY18

	3QFY18E	3QFY17	9MFY18E	9MFY17
MARI	-	-	3.2	3.0
PPL	-	-	4.0	3.0
OGDC	2.0	1.5	6.8	4.0
POL	-	-	17.5	15.0

#### Relative Performance to KSE 100



Source: Bloomberg, PSX &amp; IGI Research

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## Oil & Gas Exploration Companies

### E&P sector earnings to increase by +38%YoY to PKR 40.47bn in 3QFY18

- IGI E&P universe earnings are expected to decline by +38%YoY in 3QFY18 to PKR 40.47bn compared to PKR 29.36bn in the same period last year,
- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 16<sup>th</sup> Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 3.44bn (EPS: PKR 14.52) up by +22%YoY. We expect Mari Petroleum Company Limited (MARI) to post earnings of PKR 4.21bn (EPS: PKR 38.21) up by +2.5xYoY. We expect Pakistan Petroleum Limited (PPL) to post earnings of PKR 12.10bn (EPS: PKR 6.14) up by +66%YoY. We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 20.72bn (EPS: PKR 4.82) up by +18%YoY,
- We maintain 'BUY' call on MARI with our Dec-18 target price of PKR 2,094/share offering +37.6% upside from last close. We have a 'HOLD' call on OGDC and PPL with our Dec-18 target price of PKR 185/share and PKR 236/share, respectively.

#### E&P Sector: Earnings to leap up by +38%YoY to PKR 40.47bn in 3QFY18

IGI E&P universe earnings are expected to increase by +38%YoY in 3QFY18 to PKR 40.47bn compared to PKR 29.36bn in the same period last year. Earnings' accretion are expected on the back of a) 5% depreciation of PKR against greenback as revenues are denominated in USD, b) higher other income due to likely exchange gains for POL and PPL on dollar based investments, c) higher wellhead prices for Sui under revised Gas Price Agreement (GPA) and unwinding of discounts for Mari field, d) +24%YoY rise in oil prices and, e) improved gas flows from Mari field and higher oil production for POL and PPL. We expect only OGDC to announce cash dividend of PKR 2.0/share.

#### POL: earnings to increase by +22%YoY in 3QFY18 to PKR 14.52/share

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 16<sup>th</sup> Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 3.44bn (EPS: PKR 14.52) up by +22%YoY compared to PKR 2.81bn (EPS: PKR 11.88) in the same period last year. We attribute the growth in the earnings to a) exchange gains of PKR 418mn owing to 5% PKR depreciation in Mar-18, b) 24%YoY rise in oil prices and, c) LPG/Gas/Oil production up by +11%/+7%/+4%YoY. This brings 9MFY18 earnings to PKR 8.20bn (EPS PKR 34.65) up by +10%YoY.

Exhibit:

#### Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	9,209	7,611	21%	22,449	20,416	10%
Operating Costs	2,302	2,245	3%	6,431	6,362	1%
Royalty	780	669	17%	1,870	1,742	7%
Amortization of D&D Cost	619	543	14%	2,109	1,969	7%
Gross Profit	5,391	4,084	32%	11,774	10,142	16%
Exploration Costs	443	246	80%	1,184	437	171%
Other Income	609	312	95%	2,174	1,260	73%
PBT	4,771	3,681	30%	10,821	9,653	12%
PAT	3,435	2,810	22%	8,196	7,466	10%
EPS (PKR)	14.52	11.88		34.65	31.56	
DPS (PKR)	-	-		17.50	15.00	

Source: IGI Research and Company Financials

No of Shares: 236.55mn

### MARI: Unwinding of discount and higher gas flows from Mari field to lift EPS by +2.5xYoY to PKR 38.21

We expect Mari Petroleum Company Limited (MARI) to post earnings of PKR 4.21bn (EPS: PKR 38.21) up by +2.5xYoY compared to PKR 1.70bn (EPS: PKR 15.37) in the same period last year. We attribute this substantial growth in the earnings to a) 2.9% increase in gas production from Mari field, b) unwinding of discounts to wellhead gas price for Mari field to 86.6% compared to 59.8% in the same period last year, c) +24%YoY rise in oil prices and, d) 5% PKR depreciation in Mar-18. However, the Company is likely to book lower income from Mari Seismic Unit as data of only 81.6L.kms were acquired during the quarter compared to 539L.kms in 2QFY18. This brings 9MFY18 earnings to PKR 11.03bn (EPS PKR 100.03) up by +75%YoY.

Exhibit:

#### MARI Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	10,077	6,806	48%	28,094	19,866	41%
Royalty	1,278	894	43%	3,567	2,528	41%
Operating Expense	2,183	1,615	35%	6,845	5,118	34%
Exploration Expense	671	1,667	-60%	2,027	2,565	-21%
Gross Profit	5,685	2,496	128%	14,735	9,117	62%
Other Income	358	(302)	n/m	666	(433)	n/m
EBIT	6,043	2,194	175%	15,401	8,684	77%
Finance Income	166	82	102%	469	168	179%
Finance Cost	313	224	40%	921	637	45%
PBT	5,895	2,053	187%	14,949	8,216	82%
PAT	4,213	1,695	149%	11,028	6,307	75%
EPS (PKR)	38.21	15.37		100.03	57.21	
DPS (PKR)	-	-		3.20	3.00	

Source: IGI Research and Company Financials

No of Shares: 110.25mn

### PPL: Higher wellhead price for Sui to accrete EPS by +66%YoY to PKR 6.14

We expect Pakistan Petroleum Limited (PPL) to post earnings of PKR 12.10bn (EPS: PKR 6.14) up by +66%YoY compared to PKR 7.27bn (EPS: PKR 3.69) in the same period last year. We attribute this substantial growth in the earnings to a) 65% higher wellhead gas price for Sui field having PKR 1.04/share earnings impact for 3QFY18, b) +5%YoY increase in gas flows from Kandhkot field and +16%YoY rise in LPG production, c) likely exchange gains of PKR 1.3bn on dollar based investments of USD 274mn, d) +24%YoY rise in oil prices and, e) 5% PKR depreciation in Mar-18. This brings 9MFY18 earnings to PKR 34.13bn (EPS: PKR 17.31) up by +79%YoY.

Exhibit:

#### PPL Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	32,935	23,948	38%	93,909	63,973	47%
Operating & exploration exp	11,391	11,451	-1%	32,515	31,554	3%
Royalty	4,947	2,779	78%	13,909	7,476	86%
Gross Profit	16,598	9,719	71%	47,485	24,943	90%
Other Income	2,305	1,197	93%	6,788	3,432	98%
Other Expense	972	552	76%	3,265	1,420	130%
Finance Cost	135	115	17%	374	347	8%
PBT	17,796	10,249	74%	50,634	26,609	90%
PAT	12,102	7,273	66%	34,125	19,070	79%
EPS (PKR)	6.14	3.69	66%	17.31	9.67	79%
DPS (PKR)	-	-		4.00	3.00	

Source: IGI Research and Company Financials

No of Shares: 1,972.72mn

### OGDC: Dry well cost and lower oil and gas production to keep a lid on EPS growth

We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 20.72bn (EPS: PKR 4.82) up by +18%YoY compared to PKR 17.59bn (EPS: PKR 4.09) in the same period last year. We attribute this growth in earnings to a) likely exchange gains of PKR 567mn on foreign investments of USD 161mn, b) +24%YoY rise in oil prices and, c) 5% PKR depreciation in Mar-18. However, two dry wells costs incurred at Kacha khel-1 (Nashpa block-stake 57.2%) and Ganjo Takkar-1 (Nim block-stake 77.5%) along with decline of 12%/8%YoY in oil/gas production, is expected to limit earnings growth in 3QFY18. This brings 9MFY18 earnings to PKR 57.39bn (EPS: PKR 13.34) up by +21%YoY. We expect the company to announce cash dividend of PKR 2.0/share taking total 9MFY18 cash dividend to 6.75/share.

Exhibit:

#### Financial Highlights

PKRmn	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	54,900	45,549	21%	150,860	126,630	19%
Royalty	5,917	4,933	20%	15,879	13,761	15%
Operating Expenses	15,460	14,812	4%	43,739	43,169	1%
Gross Profit	32,975	25,339	30%	89,858	68,400	31%
Other Income	3,499	3,261	7%	10,165	12,570	-19%
Exploration expense	5,067	2,191	131%	12,432	10,380	20%
Finance Cost	402	420	-4%	1,249	1,236	1%
WPP Fund	1,202	1,264	-5%	3,941	3,396	16%
PBT	29,180	24,017	21%	81,209	64,520	26%
PAT	20,718	17,586	18%	57,389	47,595	21%
EPS (PKR)	4.82	4.09		13.34	11.07	
DPS (PKR)	2.00	1.50		6.75	4.00	

Source: IGI Research and Company Financials

No Shares: 4,300.93mn

#### Recommendation

We maintain **'BUY'** call on MARI with our Dec-18 target price of PKR 2,094/share offering +37.6% upside from last close. We have a **'HOLD'** call on OGDC and PPL with our Dec-18 target price of PKR 185/share and PKR 236/share, respectively.

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