

## Sector Update

## IGI E&amp;P result previews

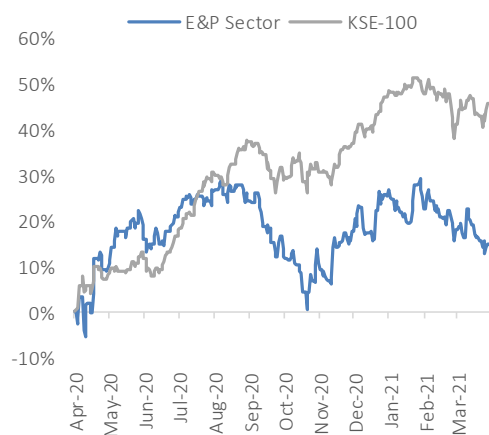
## EPS estimate for 3QFY21

|      | 3QFY21E | YoY  | 9MFY21E | YoY  |
|------|---------|------|---------|------|
| PPL  | 5.1     | -5%  | 14.8    | 2%   |
| MARI | 61.8    | -3%  | 184.8   | 6%   |
| OGDC | 5.4     | -24% | 15.2    | -22% |
| POL  | 14.5    | -23% | 37.9    | -23% |

## DPS estimate for 3QFY21

|      | 3QFY21E | 9MFY21E | 9MFY20 |
|------|---------|---------|--------|
| PPL  | -       | 1.5     | -      |
| MARI | -       | 6.0     | 4.1    |
| OGDC | 1.9     | 5.5     | 4.3    |
| POL  | -       | 20.0    | 20.0   |

## Relative Performance to KSE 100



Source: Bloomberg, PSX &amp; IGI Research

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## Oil &amp; Gas Exploration Companies

## Sector Earnings to drop during 3QFY21 amid lower production despite higher oil prices

- IGI E&P universe earnings are expected to augment by 16% YoY in 3QFY21 to PKR 49.6bn compared to PKR 59.0bn in the same period last year. On sequential basis, earnings growth is expected to be limited by +20% QoQ on account of recovery in oil prices,
- We expect Pakistan Oilfields Limited's (POL) to report earnings of PKR 4.12bn (EPS: PKR 14.52) down by 23% YoY compared to PKR 5.38bn (EPS: PKR 18.95) in the same period last year,
- We forecast Mari Petroleum Company Limited's (MARI) to register earnings of PKR 8.25bn (EPS: PKR 61.84), down by 3% YoY, during 3QFY21 compared to PKR 8.48bn (EPS: PKR 63.54) in the same period last year,
- We estimate Pakistan Petroleum Limited (PPL) to post earnings of PKR 13.96bn (EPS: PKR 5.13) down by 5% YoY compared to PKR 14.67bn (EPS: PKR 5.39) in the same period last year,
- We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 26.98bn (EPS: PKR 6.27) up by +37% YoY compared to PKR 19.66bn (EPS: PKR 4.57) in the same period last year.

## E&amp;P Sector: Earnings to decline by 16% YoY to PKR 49.6bn in 3QFY21

IGI E&P universe earnings are expected to augment by 16% YoY in 3QFY21 to PKR 49.6bn compared to PKR 59.0bn in the same period last year. Earnings attrition is expected on the back of a) drop in oil and gas production and, b) lower other income due to exchange losses as PKR appreciated against greenback during the quarter. Decline in earnings is likely to be limited by rise in oil prices and lower exploration costs. On sequential basis, earnings growth is expected to be limited by +20% QoQ on account of recovery in oil prices.

## POL: Earnings to decline by 23% YoY during 3QFY21E to PKR 14.52/share

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 26<sup>th</sup>-Apr-21 to announce financial results for 3QFY21 where we expect the Company to report earnings of PKR 4.12bn (EPS: PKR 14.52) down by 23% YoY compared to PKR 5.38bn (EPS: PKR 18.95) in the same period last year. On a quarterly basis earnings are expected to rise by +36% QoQ on the back of +38% QoQ incline in average oil prices.

We attribute the decline in the earnings to a) drop in oil and gas production and, b) lower other income on the back of exchange losses. However due to absence of dry well cost and lower prospecting expense, exploration costs are expected to remain on the lower side. This bring total 9MFY21E earnings to PKR 10.78bn (EPS: PKR 37.95) down by 23% YoY.

**Exhibit: POL Financial Highlights**

| PKRmn             | 3QFY21E | 3QFY20 | YoY   | 2QFY21 | QoQ  | 9MFY21E | 9MFY20 | YoY   |
|-------------------|---------|--------|-------|--------|------|---------|--------|-------|
| Net Sales         | 10,085  | 10,737 | -6%   | 8,843  | 14%  | 28,218  | 32,450 | -13%  |
| Operating Costs   | 2,397   | 2,660  | -10%  | 2,150  | 11%  | 6,898   | 7,709  | -11%  |
| Royalty           | 1,084   | 1,080  | 0%    | 934    | 16%  | 3,015   | 3,420  | -12%  |
| Amortization Cost | 706     | 653    | 8%    | 678    | 4%   | 1,947   | 1,899  | 3%    |
| Gross Profit      | 5,822   | 6,267  | -7%   | 5,011  | 16%  | 16,138  | 19,199 | -16%  |
| Exploration Costs | 75      | 362    | -79%  | 34     | 123% | 184     | 1,152  | -84%  |
| Finance Cost      | (270)   | 1,240  | -122% | (188)  | 43%  | (373)   | 1,688  | -122% |
| Other Income      | 349     | 2,523  | -86%  | 242    | 44%  | 894     | 3,698  | -76%  |
| PBT               | 5,890   | 6,690  | -12%  | 4,955  | 19%  | 15,880  | 18,643 | -15%  |
| PAT               | 4,123   | 5,379  | -23%  | 3,021  | 36%  | 10,772  | 13,947 | -23%  |
| EPS (PKR)         | 14.52   | 18.95  |       | 10.64  |      | 37.95   | 49.13  |       |
| DPS (PKR)         | -       | -      |       | 20.00  |      | 20.00   | 20.00  |       |

Source: IGI Research and Company Financials

No of Shares: 283.86mn

**MARI: Earnings to drop by 3%YoY to PKR 61.84/share in 3QFY21**

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 19<sup>th</sup>-Apr-21 to announce financial results for 3QFY21 where we expect the Company to register earnings of PKR 8.25bn (EPS: PKR 61.84), down by 3%YoY, during 3QFY21 compared to PKR 8.48bn (EPS: PKR 63.54) in the same period last year. We attribute this drop in earnings to a) lower income from Mari seismic unit and, b) drop in finance income on account of drop in interest rates and exchange losses. However, lower exploration cost in the absence of dry well is likely to restrict further decline in earnings. On quarterly basis, earnings are estimated to increase by +12%QoQ on the back of rise in oil prices and incline in oil production. This brings 9MFY21E earning to PKR 24.65bn (EPS: PKR 184.79) up by +6%YoY.

**Exhibit: MARI Financial Highlights**

| PKRmn          | 3QFY21E | 3QFY20 | YoY  | 2QFY21 | QoQ  | 9MFY21E | 9MFY20 | YoY  |
|----------------|---------|--------|------|--------|------|---------|--------|------|
| Net Sales      | 19,188  | 18,978 | 1%   | 18,847 | 2%   | 58,408  | 53,527 | 9%   |
| Royalty        | 2,346   | 2,387  | -2%  | 2,361  | -1%  | 7,247   | 6,742  | 7%   |
| Operating      | 4,225   | 3,426  | 23%  | 4,141  | 2%   | 11,389  | 9,836  | 16%  |
| Exploration    | 836     | 2,227  | -62% | 1,807  | -54% | 3,863   | 5,739  | -33% |
| Gross Profit   | 10,969  | 10,180 | 8%   | 9,795  | 12%  | 33,445  | 28,935 | 16%  |
| Other Income   | (133)   | 239    | n/m  | (3)    | n/m  | (643)   | 400    | n/m  |
| EBIT           | 10,836  | 10,419 | 4%   | 9,792  | 11%  | 32,802  | 29,335 | 12%  |
| Finance Income | 949     | 1,340  | -29% | 813    | 17%  | 2,699   | 3,902  | -31% |
| Finance Cost   | 218     | 243    | -10% | 225    | -3%  | 669     | 735    | -9%  |
| PBT            | 11,567  | 11,516 | 0%   | 10,380 | 11%  | 34,833  | 32,502 | 7%   |
| PAT            | 8,250   | 8,477  | -3%  | 7,335  | 12%  | 24,651  | 23,225 | 6%   |
| EPS (PKR)      | 61.84   | 63.54  |      | 54.98  |      | 184.79  | 174.10 |      |
| DPS (PKR)      | -       | -      |      | 6.00   |      | 6.00    | 4.10   |      |

Source: IGI Research and Company Financials

No of Shares: 133.40mn

**PPL: Earnings to drop marginally amid lower production**

We estimate Pakistan Petroleum Limited (PPL) to post earnings of PKR 13.96bn (EPS: PKR 5.13) down by 5%YoY compared to PKR 14.67bn (EPS: PKR 5.39) in the same period last year. On a quarterly basis, earnings are expected to incline by +17%QoQ on the back of recovery in oil prices. We attribute the decline in the earnings to a) lower oil and gas production and, b) exchange losses on account of PKR

appreciation as compared to exchange gains in the same period last year. This brings 9MFY21E earnings to PKR 40.20bn (EPS: PKR 14.77) up by +2% YoY.

**Exhibit: PPL Financial Highlights**

| PKRmn               | 3QFY21E | 3QFY20 | YoY  | 2QFY21 | QoQ  | 9MFY21E | 9MFY20  | YoY  |
|---------------------|---------|--------|------|--------|------|---------|---------|------|
| Net Sales           | 39,672  | 40,818 | -3%  | 36,313 | 9%   | 115,211 | 126,228 | -9%  |
| Operating Expense   | 12,110  | 11,708 | 3%   | 12,636 | -4%  | 34,083  | 33,047  | 3%   |
| Royalty             | 5,996   | 6,206  | -3%  | 5,412  | 11%  | 17,352  | 18,887  | -8%  |
| Gross Profit        | 21,566  | 22,904 | -6%  | 18,266 | 18%  | 63,777  | 74,294  | -14% |
| Exploration Expense | 868     | 2,020  | -57% | 873    | -1%  | 4,014   | 13,762  | -71% |
| Admin Expense       | 976     | 828    | 18%  | 991    | -2%  | 2,843   | 2,164   | 31%  |
| Other Income        | 1,139   | 1,641  | -31% | 1,111  | 3%   | 2,998   | 4,107   | -27% |
| Other Expense       | 1,915   | (165)  | n/m  | 1,754  | 9%   | 5,801   | 7,159   | -19% |
| EBIT                | 18,947  | 21,862 | -13% | 15,758 | 20%  | 54,117  | 55,318  | -2%  |
| Finance Cost        | 247     | 268    | -8%  | 289    | -14% | 828     | 788     | 5%   |
| PBT                 | 18,700  | 21,594 | -13% | 15,469 | 21%  | 53,289  | 54,530  | -2%  |
| PAT                 | 13,960  | 14,674 | -5%  | 11,886 | 17%  | 40,197  | 39,229  | 2%   |
| EPS (PKR)           | 5.13    | 5.39   |      | 4.37   |      | 14.77   | 14.42   |      |
| DPS (PKR)           | -       | -      |      | 1.50   |      | 1.50    | -       |      |

Source: IGI Research and Company Financials

No of Shares: 2,720.97mn

**OGDC: Lower production, exchange losses and higher exploration cost to drag 3QFY21 EPS by 24%YoY**

We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 23.22bn (EPS: PKR 5.40), down by 24% YoY, during 3QFY21 compared to PKR 30.46bn (EPS: PKR 7.08) in the same period last year. We attribute the decline in earnings to a) drop in oil and gas production, b) substantial drop in other income on account of exchange losses and, c) higher exploration cost on account of two dry well incurred (Qadirpur and Khewari Block). On sequential basis, earnings are expected to rise on account of rise in international oil prices and higher share of profit from MARI. This bring total 9MFY21E earnings to PKR 65.45bn (EPS: PKR 15.22) down by 22% YoY. We expect the company to announce cash dividend of PKR 1.9/share along with the result, bringing total cash payout for 9MFY21E to PKR 5.5/share.

**Exhibit: OGDC Financial Highlights**

| PKRmn              | 3QFY21E | 3QFY20 | YoY  | 2QFY21 | QoQ | 9MFY21E | 9MFY20  | YoY  |
|--------------------|---------|--------|------|--------|-----|---------|---------|------|
| Net Sales          | 65,579  | 64,972 | 1%   | 54,632 | 20% | 176,559 | 192,423 | -8%  |
| Royalty            | 7,399   | 7,145  | 4%   | 6,176  | 20% | 20,302  | 22,360  | -9%  |
| Operating Expenses | 18,150  | 15,823 | 15%  | 16,413 | 11% | 51,452  | 45,662  | 13%  |
| Gross Profit       | 39,407  | 41,502 | -5%  | 31,437 | 25% | 103,347 | 123,086 | -16% |
| Other Income       | 724     | 8,787  | -92% | 640    | 13% | 7,321   | 21,883  | -67% |
| Exploration cost   | 3,595   | 3,077  | 17%  | 2,266  | 59% | 8,817   | 13,502  | -35% |
| Finance Cost       | 976     | 840    | 16%  | 582    | 68% | 2,122   | 2,340   | -9%  |
| WPP Fund           | 1,807   | 2,341  | -23% | 1,483  | 22% | 5,074   | 6,485   | -22% |
| Share of profit    | 1,650   | 1,475  | 12%  | 1,467  | 12% | 4,930   | 4,424   | 11%  |
| PBT                | 34,153  | 44,479 | -23% | 28,174 | 21% | 96,222  | 123,220 | -22% |
| PAT                | 23,224  | 30,460 | -24% | 18,882 | 23% | 65,450  | 83,572  | -22% |
| EPS (PKR)          | 5.40    | 7.08   |      | 4.39   |     | 15.22   | 19.43   |      |
| DPS (PKR)          | 1.90    | -      |      | 1.60   |     | 5.50    | 4.25    |      |

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

**Recommendation**

We maintain 'BUY' call on MARI as our top picks with our Dec-21 target price of PKR 1,991/share offering +26% upside from last close. MARI are trading at FY22 P/E of 6.6x. We maintain our liking for MARI based on healthy cash position and no ties to circular debt along with potential diversification in to mining business. Recent removal of cap on dividend payout is also likely to act as a key catalyst for MARI. We also have a 'BUY' stance on OGDC and PPL with our Dec-21 target prices of PKR 160/share and PKR 141/share offering +64% upside each from last close.

Although, OGDC and PPL offer attractive valuations than MARI, we believe high cash tied up in circular debt is the key reason for lower multiples, which isn't the case for MARI, hence allowing for better cash payout (recall, cap on dividend was removed earlier this year) and long term investments such as mining business.

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**Time Horizon:** Dec – 2021

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