

Day Break

Tuesday, 28 August 2018

Sector Update

E&P Reserves Data as at Jun-18

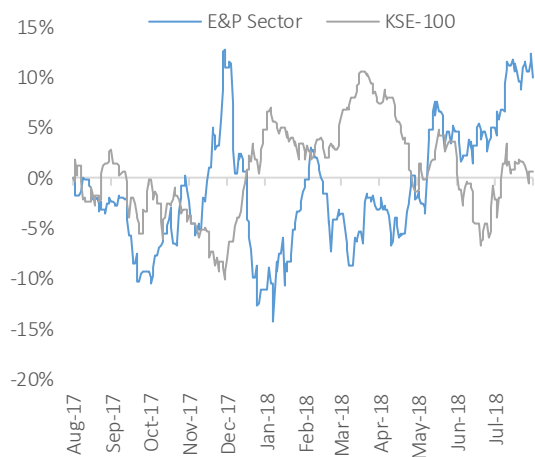
Oil Reserves as at Jun-18

mnbbls	Jun-18	Jun-17	YoY	Jun-16
OGDC	149.4	158.7	-6%	171.0
PPL	56.8	64.1	-11%	65.5
POL	47.9	20.5	134%	20.6
MARI	1.0	1.3	-25%	1.8
Total	347.9	332.2	5%	350.6

Gas Reserves as at Jun-18

bcf	Jun-18	Jun-17	YoY	Jun-16
OGDC	6,021	6,351	-5%	6,706
PPL	2,862	3,541	-19%	3,340
POL	419	230	82%	237
MARI	4,956	5,209	-5%	3,251
Total	19,542	20,794	-6%	22,422

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

Pakistan Oil reserves up by +5% while gas reserves drop by 6% during FY18; Only POL stands out with positive RRR

- As per latest data published by Pakistan Petroleum Information Service (PPIS), Pakistan's total oil gas reserves are up by +5% to 348mnbbls as at Jun-18 compared to 332mnbbls at Jun-17. Gas reserves are down by 6% to 19.54tcf as at Jun-18 compared to 20.79tcf at Jun-17.
- Joyamair and Pindori field oil reserves have been revised upwards by +221x and +2.7x to 13.3mn bbls and 2.1mn bbls respectively as at Jun-18. Sui Deep gas reserves to the tune of 500bcf have been removed from which production was yet to be commenced since inception leading to a 30% drop in reserve base to 1.28bcf as at Jun-18,
- Adhi field oil reserves have been revised down by 30% to 18.7mn bbls as at Jun-18 which comes at a draw-down of 7.98mn bbls. Jhandial field reserves currently stand at 23.9mnbbls while gas reserves are reported at 0.29tcf. The aforementioned field accounts for nearly 7% and 1% of Pakistan's oil and gas reserves, respectively.
- Mardankhel oil and gas reserves have been revised down substantially by 60% and 61% to 6.2mnbbls and 132bcf at Jun-18 compared to 15.6mnbbls and 338mmcf at Jun-17,
- PPL and MARI remain our top picks among IGI E&P Universe with our Dec-18 target prices of PKR 2,291/share and PKR 260/share offering 44.7% and 22.7% upside respectively, from last close. PPL and MARI are trading at FY19F P/E of 6.6x and 6.8x respectively.

Pakistan Oil reserves up by +5% while gas reserves drop by 6% as at Jun-18

As per latest data published by Pakistan Petroleum Information Service (PPIS), Pakistan's total oil gas reserves are up by +5% to 348mnbbls as at Jun-18 compared to 332mnbbls at Jun-17. Gas reserves are down by 6% to 19.54tcf as at Jun-18 compared to 20.79tcf at Jun-17.

Major revision in reserves during FY18 included:

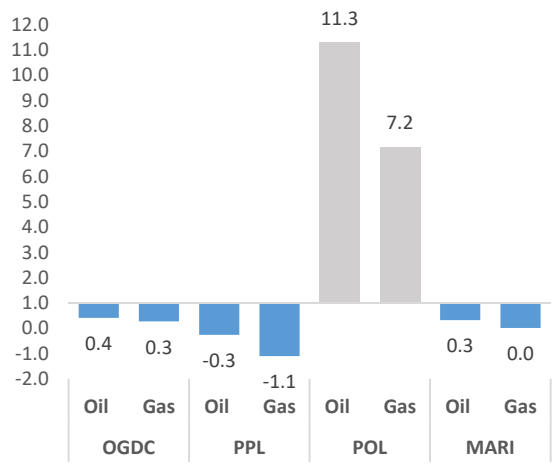
- Joyamair and Pindori oil reserves revised upwards by +221x and +2.7x:** Joyamair and Pindori field oil reserves have been revised upwards by +221x and +2.7x to 13.3mn bbls and 2.1mn bbls respectively as at Jun-18. Pakistan Oilfields Limited (POL) hold 100% stake in Joyamair while POL and Oil & Gas Development Company Limited (OGDC) hold 35% and 50% stake respectively in Pindori. We await further clarity from the management on how these reserves will be developed. Based on reserve life of 14yrs, if the production levels stand at 2,000-2,500bopd, we estimate annualized earnings impact of PKR 10-12/share on POL's earnings.
- Sui Deep gas field reserves to the tune of 500bcf removed from 2P:** Sui Deep gas reserves to the tune of 500bcf have been removed from which production was yet to be commenced since inception leading to a 30% drop in reserve base to 1.28bcf as at Jun-18. We believe the reason behind removal of reserves is that these reserves no more fall under 2P and have been reclassified as 3P reserves due to no production from the well. However, in our view this may not impact the current production levels from Sui field. As a result Sui gas field reserve life has come down to 9.1yrs from 12.4yrs previously.
- Adhi oil reserves revised down by 30% to 18.7mn bbls:** Adhi field oil reserves have been revised down by 30% to 18.7mn bbls as at Jun-18 which comes at a draw-down of 7.98mn bbls and at FY18 production of 2.82mn bbls the excess revision in reserves stands at 5.16mn bbls. OGDC, Pakistan Petroleum Limited (PPL) and POL hold 50%,

39% and 11% stake in the field. As a result Adhi field’s oil reserve life has come down to 5.5yrs compared to 9.5yrs previously.

- Jhandial reserve addition of 24mnbbbls of oil and 0.29tcf of gas:** Jhandial field reserves currently stand at 23.9mnbbbls while gas reserves are reported at 0.29tcf. The aforementioned field accounts for nearly 7% and 1% of Pakistan’s oil and gas reserves, respectively. Jhandial field lies in Ikhlas block which is operated by Pakistan Oilfields Limited (POL) with a working interest of 80%. Jhandial field was discovered in Oct-17 with expected flows between the range of 1,630-2,520bopd and 16.5-21mmcf of gas, however post commencement of production flows were reported at 1,800bopd which since then, have dropped significantly to 459bopd in week ending 14th Aug-18.
- Mardankhel reserves revised down by 60%/61% for oil/gas:** Mardankhel oil and gas reserves have been revised down substantially by 60% and 61% to 6.2mnbbbls and 132bcf at Jun-18 compared to 15.6mnbbbls and 338mmcf at Jun-17. Mardankhel’s current oil and gas production stands at 3,287bopd of oil and 38mmcf of gas which translates in to 4.5yrs and 8.3yrs of reserve life compared to 13.0yrs and 24.3yrs previously at current production levels. This further adds concern of uncertainty and low reserve life of Tal block. POL, PPL and OGDC holds 21.05%, 27.76% and 27.76% working interest in Tal block and accounts for 81%, 19% and 14% of total revenues, respectively.

Exhibit:

Reserve Replacement Ratio (RRR) for FY18



Source: PPIS, IGI Research

POL oil and gas reserves up by +2.3x and +82% as at Jun-18

POL’s oil and gas reserves are reported at 47.9mnbbbls and 0.42tcf, up by +2.3x and +82% as at Jun-18 respectively, compared to 20.49mnbbbls and 0.24tcf at Jun-17. The increase in reserves is primarily attributable to addition of Jhandial reserves of 24mnbbbls of oil and 0.29tcf of gas and revised oil reserves of Joyamair and Pindori to the tune of 13.2mn bbls and 2.1mn bbls respectively. This has increased POL’s Reserve Replacement Ratio (RRR) to net addition at the rate of +11.3x for oil and +7.2x for gas. Although POL stands out with positive RRR, however development of Joyamair reserves and true potential Jhandial reserves remains a concern.

OGDC oil and gas reserves down by 6% and 5% as at Jun-18

OGDC’s oil and gas reserves are down by 6% and 5% as at Jun-18 to 149.4mnbbbls and 6.02tcf respectively compared to 154.7mnbbbls and 6.12tcf at Jun-17. The decline in oil reserves is primarily attributable to 5% and 30% drop in Nashpa and Adhi reserves which accounts for 48% and 6% of total oil reserves for OGDC. Gas reserves are down by 5% on the back of 7% and 9% natural depletion in Uch and Qadirpur reserves which contribute nearly 32% and 14% to total gas reserves. This brings OGDC’s Reserve Replacement Ratio (RRR) to net depletion at the rate of +0.4x (or 41%) for oil and +0.3x (or 29%) for gas.

PPL oil and gas reserves down by 11% and 19% as at Jun-18

PPL’s oil and gas reserves are reported at 56.8mnbbbls and 2.86tcf, down by 11% and 19% as at Jun-18 respectively, compared to 64.1mnbbbls and 3.54tcf at Jun-17. The decline in oil reserves is primarily attributable to 5% and 30% drop in Nashpa and Adhi reserves which accounts for 62% and 13% of total oil reserves for PPL. Gas reserves are down by 19% on the back of 30% drop in Sui reserves which contribute nearly 45% to total gas reserves. This brings PPL’s Reserve Replacement Ratio (RRR) to net depletion at the rate of 0.3x (or 26%) for oil and 2.0x (or 103%) for gas.

MARI oil and gas reserves down by 25% and 5% as at Jun-18

Mari Petroleum Company Limited (MARI) oil and gas reserves are reported at 1.0mnbbbls and 4.89tcf, down by 25% and 5% as at Jun-18 respectively, compared to 1.34mnbbbls and 5.20tcf at Jun-17. The decline in oil reserves is primarily attributable to 20% and 26% drop in Adam/Adam West and Halini reserves. Gas reserves are down by 5% on the back of 5% decline in Mari field reserve which contribute nearly 99% to total gas reserves. This brings MARI’s Reserve Replacement Ratio (RRR) to net depletion at the rate of 0.3x (or 32%) for oil and 0.0x (or 1%) for gas.

Recommendation

PPL and MARI remain our top picks among IGI E&P Universe with our Dec-18 target prices of PKR 2,291/share and PKR 260/share offering +44.7% and +22.7% upside respectively, from last close. PPL and MARI are trading at FY19F P/E of 6.6x and 6.8x respectively.

Exhibit:

Oil & Gas 2P Reserves as at Jun-18

	Jun-18	Dec-17	% change	Jun-17	YoY	Jun-16	Jun-15
Oil Reserves - mnbbls							
OGDC	149.4	154.7	-3%	158.7	-6%	171.0	192.5
PPL	56.8	59.2	-4%	64.1	-11%	65.5	70.1
POL	47.9	35.0	37%	20.5	134%	20.6	23.3
MARI	1.0	1.2	-17%	1.3	-25%	1.8	2.1
Total	347.9	345.0	1%	332.2	5%	350.6	384.4

Gas Reserves - bcf							
OGDC	6,021	6,123	-2%	6,351	-5%	6,706	7,089
PPL	2,862	3,337	-14%	3,541	-19%	3,340	3,646
POL	419	417	1%	230	82%	237	273
MARI	4,956	5,087	-3%	5,209	-5%	3,251	3,482
Total	19,542	20,455	-4%	20,794	-6%	22,422	24,360

Field Wise Oil Reserves - mnbbls		weights %						Stake %				
								OGDC	PPL	POL	MARI	
Nashpa	36%	126.6	129.9	-3%	133.5	-5%	141.0	148.0	57%	28%	0%	0%
Adhi	5%	18.7	25.5	-26%	26.7	-30%	29.0	32.0	50%	39%	11%	0%
Jhandial	7%	23.8	23.9	-1%	-	n/a	-	-	0%	0%	80%	0%
Joyamair	4%	13.3	0.1	221x	0.1	221x	-	0.0	0%	0%	100%	0%
Pindori	1%	2.1	0.7	189%	0.8	174%	0.8	0.9	50%	0%	35%	0%
Manzalai	0%	0.4	0.4	0%	0.5	-20%	1.0	1.0	28%	28%	21%	0%
Mamikhel	0%	0.2	0.2	0%	-	n/a	-	1.0	28%	28%	21%	0%
Mardan Khel	2%	6.2	5.4	15%	15.6	-60%	-	-	28%	28%	21%	0%
Maramzai	2%	5.7	3.9	46%	3.2	78%	4.0	6.0	28%	28%	21%	0%
Makori	0%	-	-	n/a	-	n/a	7.0	7.0	28%	28%	21%	0%
Makori Deep	0%	0.9	0.8	13%	1.2	-25%	-	-	28%	28%	21%	0%
Makori East	5%	17.8	19.9	-11%	22.1	-19%	27.0	33.0	28%	28%	21%	0%
Tolanj	0%	0.0	0.1	-90%	0.1	-90%	-	-	28%	28%	21%	0%
Tolanj West	0%	0.0	0.1	-74%	0.1	-74%	-	-	28%	28%	21%	0%

Field Wise Gas Reserves - bcf		weights %										
								OGDC	PPL	POL	MARI	
Mari	25%	4,885	5,009	-2%	5,129	-5%	3,205	3,427	0%	0%	0%	100%
Uch	10%	1,901	1,975	-4%	2,045	-7%	2,189	2,323	100%	0%	0%	0%
Kandhkot	3%	651	649	0%	687	-5%	493	546	0%	100%	0%	0%
Sui	7%	1,277	1,758	-27%	1,835	-30%	1,997	2,158	0%	100%	0%	0%
Qadirpur	6%	1,109	1,161	-5%	1,219	-9%	1,342	1,476	75%	7%	0%	0%
Jhandial	1%	290	291	0%	-	n/a	-	-	0%	0%	80%	0%
Manzalai	0%	38	43	-11%	48	-21%	62	79	28%	28%	21%	0%
Mamikhel	0%	9	9	-2%	8	20%	10	21	28%	28%	21%	0%
Mardan Khel	1%	132	116	14%	338	-61%	-	-	28%	28%	21%	0%
Maramzai	1%	202	156	30%	180	12%	209	256	28%	28%	21%	0%
Makori	0%	1	0	233%	1	100%	168	169	28%	28%	21%	0%
Makori Deep	0%	3	2	30%	3	-12%	-	-	28%	28%	21%	0%
Makori East	1%	147	161	-9%	176	-16%	207	235	28%	28%	21%	0%
Tolanj	0%	2	9	-78%	9	-79%	-	-	28%	28%	21%	0%
Tolanj West	0%	17	62	-73%	63	-73%	-	-	28%	28%	21%	0%

Source: IGI Research, PPIS

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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Reserve Based DCF Valuation)

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