

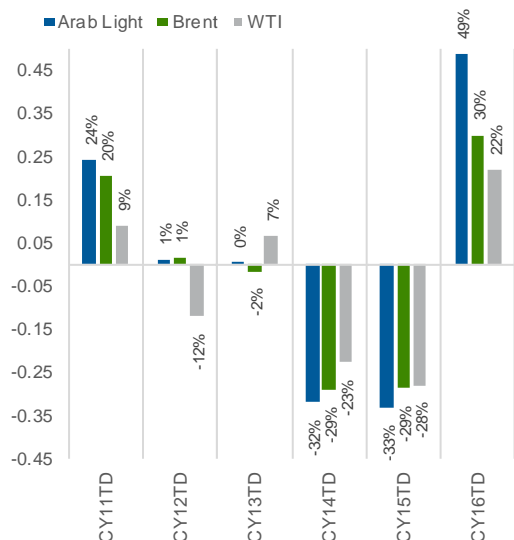
# Day Break

Thursday, 01 December 2016

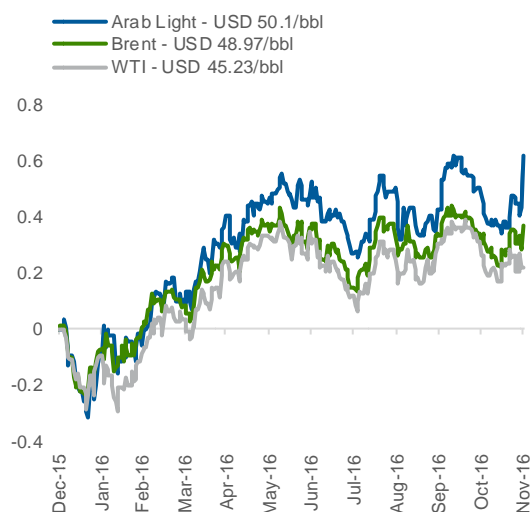
## Sector Update

Company	TP	Upside	P/E	D. Yld %
OGDC	173	23%	7.3	5.1%
PPL	195	27%	8.5	5.2%
POL	434	1%	10.1	9.7%
MARI	1,301	24%	11.9	0.5%

**Exhibit:** Oil Post highest gain in last 6 years



**Exhibit:** Oil Prices comparison CY16TD



Source: Bloomberg, KSE 100 & IGI Research

### Analyst

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## Oil & Gas - Exploration and Production

### Oil Prices Gain as OPEC Agreed to its First Production Cut Since 2008

- Organization of the Petroleum Exporting Countries (OPEC) held its meeting on 30th Nov-16 in Vienna, Austria ended with a mutual agreement between OPEC members to curb production by 1.2mn bopd.
- This significant drop in profitability is on the back to a) 14%YoY drop in oil price, b) +2.4xYoY rise in exploration cost owing to dry well cost incurred at Shawa-1 and Dhodak Rubby X-1, and c) higher effective tax rate of 30% compared to 26% in the same period last year.
- We revised our Jun-17 target price for OGDC/PPL/POL/MARI to PKR 173/195/434/1,301 per share. We maintain our "BUY" call on OGDC/PPL/MARI, offering +23%/27%/24% upside from its last closing, while POL remains a 'HOLD' call.

#### OPEC Vienna meeting end on a mutual consensus to curb production

Organization of the Petroleum Exporting Countries (OPEC) held its meeting on 30<sup>th</sup> Nov-16 in Vienna (Austria) ended with a mutual agreement between OPEC members to curb production by 1.2mn bopd (which is the first production cut since 2008) to 32.5mn bopd. In addition, an understanding has been reached with Non-OPEC members including Russia to curb production by 0.6mn bopd.

According to OPEC press release major highlights of the meeting were:

- Iran allowed to raise output to 3.9mn bopd,
- The agreement will be effective from 1<sup>st</sup> Jan-17 for a period of six months after which agreement will be reviewed and can be extended for further six months and,
- Indonesia suspended from OPEC membership and its production cut share to be distributed amongst existing members

#### Production cut – Back to Aug-16 levels

In our view, OPEC decision to cut production is technically a production freeze at Aug-16 production level as decided in last OPEC meeting held in Sep-16. OPEC agreed to lock production at Aug-16 levels in Sep-16 and the adjustment of production cut country-wise was to be decided in Nov-16 meeting. However, since then OPEC's output has increased by 1.1-1.2mn bopd to 33.6-33.7mn bopd, which meant a production cut had to be take place in order to freeze production at Aug-16 levels.

#### Oil price rebound...

Arab Light (benchmark crude oil) gained nearly +20% to reach USD 50/bbl. since last OPEC meeting held in Sep-16, when OPEC initially announced to freeze production at Aug-16 level. Since the commencement of OPEC meeting in Vienna and decision to cut production was agreed between OPEC members, Arab Light and WTI prices have gained +10% and +9% to USD 49.8/bbl. and USD 49.4/bbl, respectively.

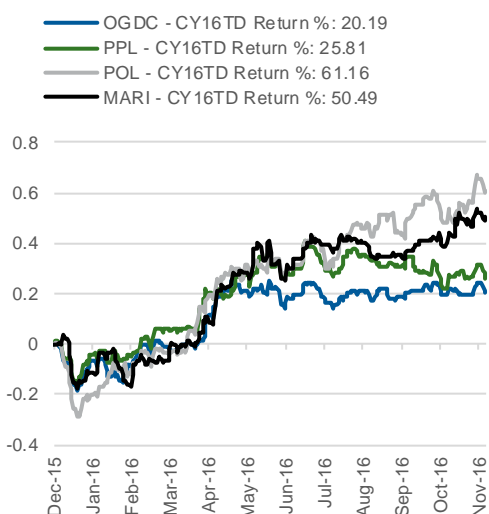
**Exhibit: OPEC and Non-OPEC Production Cut schedule**

Member	Ref. Prod.	Chg.	Prod. w.e.f 1-Jan-17
000'bopd			
Algeria	1,089	(50)	1,039
Angola	1,751	(87)	1,664
Ecuador	548	(26)	522
Gabon	202	(9)	193
Indonesia*	-	-	-
Iran	3,975	90	3,797
Iraq	4,561	(210)	4,351
Kuwait	2,838	(131)	2,707
Libya	-	-	-
Nigeria	-	-	-
Qatar	648	(30)	618
Saudi Arabia	10,544	(486)	10,058
U.A.E	3,013	(139)	2,874
Venezuela	2,067	(95)	1,972
<b>Total</b>	<b>31,236</b>	<b>(1,173)</b>	<b>29,795</b>
Non-OPEC		(600)	
Russia		(300)	

\* Indonesia suspended from OPEC

\*\* Non-OPEC Oil Production cut agreed at 600,000bopd including Russia

**Exhibit: Relative Price Performance IGI E&P Universe**



Source: OPEC, IGI Research

**POL to stand as a key beneficiary**

For local Exploration and Production industry, we believe Pakistan Oilfields Limited (POL) to stand as key beneficiary of rise in oil price considering it has nearly ~32% oil contribution in its total production (based on BOE), compared to 18/10/1% for OGDC/PPL/MARI.

**Outlook**

Based on a positive outcome of OPEC meeting in Vienna, we expect oil price (benchmark Arab Light) to augment more compared to WTI and Brent. As the duration of agreement is for six months we expect Arab Light to reach and remain range bound between USD 50-55/bbl. and average USD 50/bbl. for FY17. However, as WTI has crossed USD 50/bbl. mark and US shale oil production is expected to resume we expect limited gains in oil price once shale production comes back online. As a result, once shale oil production resumes we anticipate oil prices to come under pressure.

**Oil price assumption upgraded to USD 50/bbl for FY17 from previous USD 45/bbl**

We have revised our oil price assumption to USD 50/bbl. for FY17 from previous USD 45/bbl. incorporating recent price rally (OPEC production freeze for a period of six months and to be extended after a review meeting in May-17). However, we still maintain our long-term price assumption of USD 50/bbl.owing to tepid demand and expected production of US shale oil. Nevertheless, based on revised oil price assumption to USD 50/bbl. in FY17, we estimate earning impact of PKR 0.9/0.7/4.0/6.4 per share for OGDC/PPL/POL/MARI in FY17.

**Recommendation**

We revised our Jun-17 target price for OGDC/PPL/POL/MARI to PKR 173/195/434/1,301 per share incorporating recent oil and gas discoveries, change in reserves and revised oil prices for FY17. We maintain our **“BUY”** call on OGDC/PPL/MARI, offering +23%/27%/24% upside from its last closing, while POL remains a **‘HOLD’** call.

## Earning and Target price Sensitivity to Oil Price

### Pakistan Oilfields Limited (POL)

Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Jun-17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	45.0	45.0	45.0	38.9	44.4	44.2	407.7
Base	50.0	50.0	50.0	42.9	49.1	48.7	434.3
Bull 1	55.0	55.0	55.0	46.8	53.6	53.0	460.0
Bull 2	60.0	60.0	60.0	50.8	58.1	57.3	485.8
Bull 3	65.0	65.0	65.0	54.7	62.5	61.6	511.6

### Oil & Gas Development Company (OGDC)

Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Jun'17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	45.0	45.0	45.0	18.4	19.3	17.9	167.4
Base	50.0	50.0	50.0	19.3	20.3	18.9	173.3
Bull 1	55.0	55.0	55.0	20.3	21.3	19.8	179.0
Bull 2	60.0	60.0	60.0	21.2	22.3	20.8	184.8
Bull 3	65.0	65.0	65.0	22.1	23.3	21.7	190.5

### Pakistan Petroleum Limited (PPL)

Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Jun-17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	45.0	45.0	45.0	17.4	18.7	17.7	184.1
Base	50.0	50.0	50.0	18.1	20.4	19.4	195.3
Bull 1	55.0	55.0	55.0	18.9	21.8	20.8	204.4
Bull 2	60.0	60.0	60.0	19.6	23.2	22.1	213.6
Bull 3	65.0	65.0	65.0	20.3	24.6	23.5	222.7

### Mari Petroleum Limited (MARI)

Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Jun-17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	45.0	45.0	45.0	81.5	105.2	118.6	1,248.4
Base	50.0	50.0	50.0	87.9	112.6	126.7	1,300.6
Bull 1	55.0	55.0	55.0	93.3	118.9	133.5	1,344.7
Bull 2	60.0	60.0	60.0	98.7	125.2	140.4	1,388.8
Bull 3	65.0	65.0	65.0	104.1	131.4	147.3	1,432.9

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