

Day Break

Friday, 26 May 2017

Sector Update

Company	FY18F			
	TP	Upside	P/E	D. Yld %
OGDC	196	5%	9.1	3.8%
PPL	210	12%	10.6	4.2%
POL	551	4%	10.3	8.8%
MARI	2,090	21%	10.9	0.4%

Exhibit: International Oil prices - (USD/bbl)

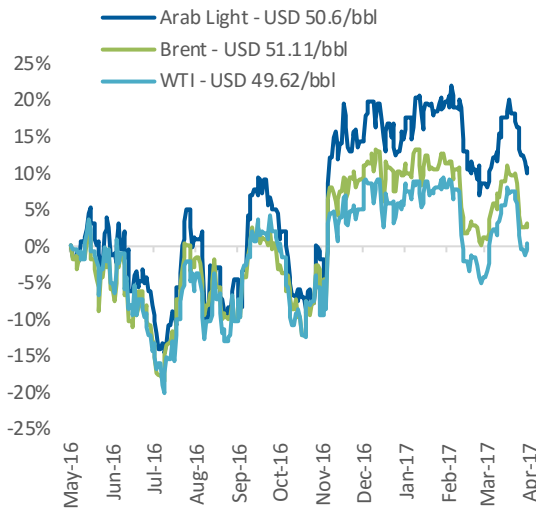
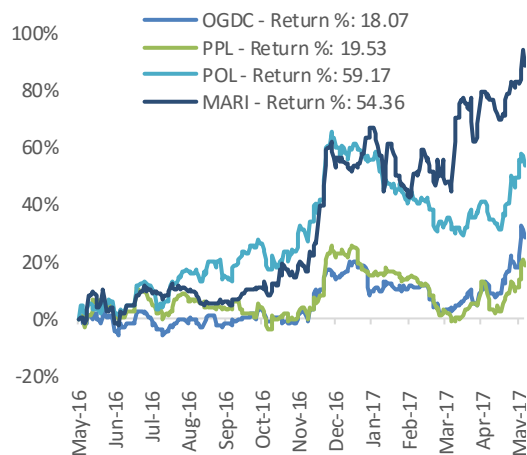


Exhibit: Relative Price Performance IGI E&P Universe



Source: Bloomberg, KSE 100 & IGI Research

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Oil & Gas - Exploration and Production

Oil Drops on Below Expectation Outcome of OPEC & Non-OPEC Vienna Meeting 2017

- Organization of the Petroleum Exporting Countries (OPEC) held its 172nd meeting on 25th May-17 in Vienna (Austria) which concluded with a mutual agreement between OPEC and Non-OPEC members to extend production cuts by 1.8mnbopd (1.2mnbopd for OPEC and 0.6mnbopd for Non-OPEC) for a further 9 months w.e.f. 1st Jul-17.
- Based on a below expectation outcome of OPEC 2017 meeting in Vienna, we expect oil price (benchmark Arab Light) to remain range bound between USD 50-55/bbl. and average USD 50/bbl. for FY17. We maintain our oil price assumption of USD 50/bbl for FY17 and onwards
- We maintain a **"BUY"** call on PPL and MARI with our Dec-17 target price of PKR 210/share and PKR 2,090/share offering +12% and +21% upside respectively, from its last closing. We have a **"HOLD"** call on OGDC and POL with our Dec-17 target price of PKR 196/ share and PKR 551/share respectively. POL offers highest dividend yield of 8.8%.

OPEC Vienna meeting Concluded on Extension in production cuts till Mar-18

Organization of the Petroleum Exporting Countries (OPEC) held its 172nd meeting on 25th May-17 in Vienna (Austria) which concluded with a mutual agreement between OPEC and Non-OPEC members to extend production cuts by 1.8mnbopd (1.2mnbopd for OPEC and 0.6mnbopd for Non-OPEC) for a further 9 months w.e.f. 1st Jul-17. Oil Price (Arab Light) came down by nearly 5% to USD 49.33/bbl after OPECs press release as no deeper cuts were made by OPEC and Non-OPEC members which was being anticipated by the market.

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

- Production cuts as agreed on last OPEC and Non-OPEC meeting to be extended for nine months effective from , 1st Jul-17,
- The agreement involves 14 OPEC members and 10 Non-OPEC members ,
- OPEC Member Countries and non-OPEC parties include Azerbaijan, Kingdom of Bahrain, Brunei Darussalam, Kazakhstan, Malaysia, Mexico, Sultanate of Oman, the Russian Federation, Republic of Sudan, and the Republic of South Sudan
- Joint Ministerial Monitoring Committee (JMMC) would be meeting every two months to review and make necessary recommendations for changes to the agreement
- Next OPEC meeting to be held on 30th Nov-2017 where agreement will be reviewed
- Russian Energy Minister Alexander Novak stated that production cut for nine months was optimum and will be extended further if need be.

To recall, production cuts extended as agreed on last OPEC Nov-16 meeting

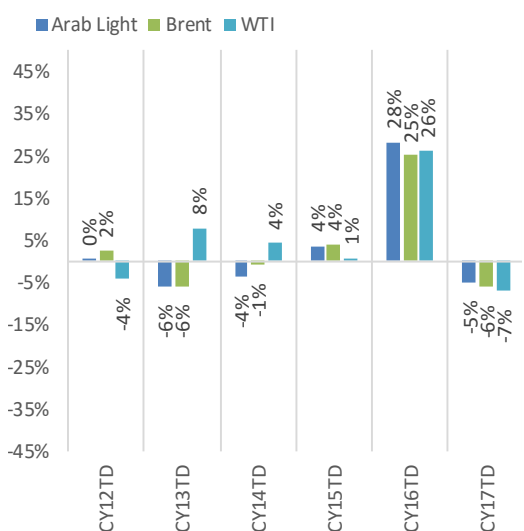
OPEC in its meeting held on Nov-16 in Vienna agreed to lock production at Aug-16 levels in Sep-16 and the adjustment of production cut country-wise was decided in Nov-16 meeting. However, since then OPEC's output had increased by 1.1-1.2mn bopd by Dec-16 to 33.6-33.7mn bopd, which meant a production cut had to take

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
Total	31,236	(1,173)	29,795
Non-OPEC		(600)	
Russia		(300)	

* Indonesia suspended from OPEC

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

Exhibit: Oil prices post highest losses in CYTD in last 6 years

Source: OPEC, IGI Research

place in order to freeze production at Aug-16 levels. Afterwards OPEC meeting with Non-OPEC members held in Dec-16 reached an agreement between two parties for a cut of 0.6mnbopd for Non-OPEC members.

Oil price retreat after OPEC meeting; ends below expectation...

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. However, since OPEC decision to extend production cut for another nine months on 25th May-17 in Vienna, Arab light price has dropped by ~5% to stand at USD 49.33/bbl.

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 ~40% oil contribution in its total revenue, compared to 31%/28%/2% for OGDC/PPL/MARI.

Our Long-term Oil price assumption intact at USD 50/bbl

Based on a below expectation outcome of OPEC 2017 meeting in Vienna, we expect oil price (benchmark Arab Light) to remain range bound between USD 50-55/bbl. and average USD 50/bbl. for FY17. We maintain our oil price assumption of USD 50/bbl for FY17 and onwards as we expect oil prices to remain under pressure owing to a) rising shale oil production, b) US likely to sell off half of its strategic oil reserves to raise USD 16bn in the next three year and, c) compliance of agreed production cut and, d) Iran, Indonesia, Libya and Nigeria still remain exempted from production cuts.

Recommendation

We maintain a **“BUY”** call on PPL and MARI with our Dec-17 target price of PKR 210/share and PKR 2,090/share offering +12% and +21% upside respectively, from its last closing. We have a **“HOLD”** call on OGDC and POL with our Dec-17 target price of PKR 196/ share and PKR 551/share respectively. POL offers highest dividend yield of 8.8%.

Earning and Target price Sensitivity to Oil Price

Pakistan Oilfields Limited (POL)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec-17
	FY18	FY19	FY20	FY18	FY19	FY20	
Bear	45	45	45	46.59	46.10	46.60	520.52
Base	50	50	50	51.50	50.80	51.20	551.27
Bull 1	55	55	55	56.20	55.28	55.58	580.66
Bull 2	60	60	60	60.90	59.76	59.95	610.05
Bull 3	65	65	65	70.30	68.73	68.70	668.84

Oil & Gas Development Company (OGDC)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec-17
	FY18	FY19	FY20	FY18	FY19	FY20	
Bear	45	45	45	19.56	18.15	17.86	190.63
Base	50	50	50	20.57	19.09	18.78	195.79
Bull 1	55	55	55	21.53	20.00	19.65	200.74
Bull 2	60	60	60	22.50	20.90	20.53	205.68
Bull 3	65	65	65	23.47	21.81	21.40	210.63

Pakistan Petroleum Limited (PPL)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec-17
	FY18	FY19	FY20	FY18	FY19	FY20	
Bear	45	45	45	16.02	15.32	14.81	199.86
Base	50	50	50	17.51	16.80	16.29	209.60
Bull 1	55	55	55	18.97	18.23	17.72	219.07
Bull 2	60	60	60	20.42	19.65	19.14	228.54
Bull 3	65	65	65	21.88	21.08	20.56	238.01

Mari Petroleum Limited (MARI)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec-17
	FY18	FY19	FY20	FY18	FY19	FY20	
Bear	45	45	45	148.57	191.83	226.04	1,985.09
Base	50	50	50	158.63	204.29	240.64	2,090.24
Bull 1	55	55	55	166.50	213.85	251.58	2,169.47
Bull 2	60	60	60	174.37	223.41	262.53	2,248.71
Bull 3	65	65	65	182.24	232.97	273.47	2,327.95

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Time Horizon: Dec - 2017

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(Reserve Based DCF Valuation)

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