

Day Break

Monday, 18 April 2016

Sector Update

| E&P Sector | TP | Upside | P/E | D. Yld % |
|------------|--------|--------|-------|----------|
| OGDC | 166.57 | 41% | 8.10 | 4.65 |
| PPL | 147.14 | 13% | 11.13 | 4.41 |

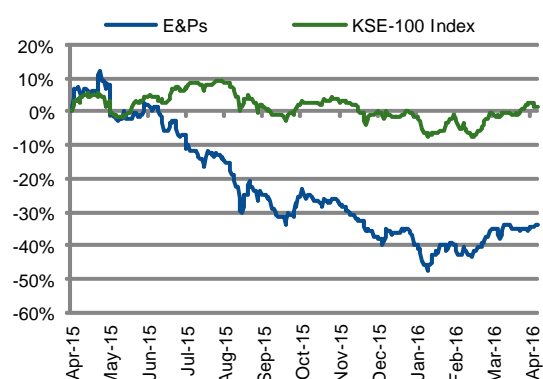
| Oil (000'bbl) | 3QFY16 | YoY | 9MFY16 | YoY |
|---------------|--------|-----|--------|-----|
| OGDC | 3.74 | 0% | 10.95 | -2% |
| PPL | 1.37 | 1% | 3.97 | -4% |

| Gas (mmcf) | 3QFY16 | YoY | 9MFY16 | YoY |
|------------|---------|-----|---------|-----|
| OGDC | 105,566 | 1% | 309,952 | -4% |
| PPL | 71,227 | 7% | 209,698 | 5% |

| EPS | 3QFY16 | YoY | 9MFY16 | YoY |
|------|--------|------|--------|------|
| OGDC | 3.27 | -30% | 11.23 | -29% |
| PPL | 2.80 | -29% | 8.76 | -42% |

| DPS | 3QFY16 | 3QFY15 | 9MFY16 | 9MFY15 |
|------|--------|--------|--------|--------|
| OGDC | 1.00 | 1.75 | 3.70 | 6.25 |
| PPL | - | - | 2.25 | 4.50 |

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Oil & Gas Exploration

Sector Profitability Descending; Price Rebound Unlikely

- OGDC's board meeting is scheduled on 26th Apr-16 to announce 3QFY16 financial results. Company is forecasted to post profitability of PKR 14.0bn (EPS PKR 3.27) in 3QFY16, depicting a decline of 30%YoY
- PPL's board meeting is scheduled on 28th Apr-16 to announce financial results for 3QFY16. A 29%YoY plunge is predicted in earnings, to the tune of PKR 5.5bn (EPS PKR 2.81) in 3QFY16, as compared to PKR 7.8bn (EPS PKR 3.96) in corresponding period last year.
- Our top pick in the sector remains OGDC with Dec-16 TP of PKR 166/share, offering +41% upside from its last close. The company is currently trading at P/E of 8.1x, offering a dividend yield of 4.7%.

No Freeze-No Price Rebound

The meeting which took place on 17th Apr-16 among OPEC and Non-OPEC members to freeze oil production at Jan-16 levels, didn't yield any consensus as Iran and US stayed away from participating in the meeting held, to save oil prices from tumbling further. However, another meeting has been planned to take place in Jun-16, which we believe would not generate any material results, unless Iran and US are in same boat as OPEC and Non-OPEC members.

Following this event we expect oil prices to witness a significant drop, which spiked to USD 42.17/bbl (WTI Crude) in anticipation of a positive outcome from the meeting. In our view, despite any output freeze by oil producing countries (excluding Iran and US), international prices are not likely to march northwards, based on sluggish oil demand expected going forward. However, in shorter term, oil prices are likely to go south post unsuccessful meeting in tandem with increased production by Iran, Iraq and Russia

Result Previews

OGDC: Earnings to Clock in at PKR 3.27/share, down by 30%YoY in 3QFY16

Oil & Gas Development Company's (OGDC) board meeting is scheduled on 26th Apr-16 to announce 3QFY16 financial results. Company is forecasted to post profitability of PKR 14.0bn (EPS PKR 3.27) in 3QFY16, depicting a decline of 30%YoY. In our view, drop in profitability is largely attributable to 42%YoY slump in oil prices to USD

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29.66/ton. For 9MFY16, earnings are expected to drop by 29%YoY to PKR 48.3bn (EPS PKR 11.23). We expect OGDC to announce cash dividend of PKR 1.0/share for 3QFY16 taking 9MFY16 cumulative dividend to PKR 3.7/share.

Exhibit: Financial Highlights

| PKRmn | 3QFY16 | 3QFY15 | YoY | 9MFY16 | 9MFY15 | YoY |
|-----------------------------|--------|--------|------|---------|---------|------|
| Net Sales | 34,441 | 44,049 | -22% | 120,627 | 162,693 | -26% |
| Operating Expenses | 9,911 | 11,023 | -10% | 36,480 | 37,156 | -2% |
| Gross Profit | 20,337 | 27,576 | -26% | 69,392 | 105,532 | -34% |
| Exploration and Prospecting | 1,742 | 1,588 | 10% | 6,455 | 7,861 | -18% |
| PAT | 14,304 | 20,178 | -29% | 48,510 | 68,006 | -29% |
| EPS (PKR) | 3.33 | 4.69 | -29% | 11.28 | 15.81 | -29% |
| DPS (PKR) | 1.00 | 1.75 | | 3.70 | 6.25 | |

Source: IGI Research and Company Financials

PPL: Profitability to depict 29%YoY dip to PKR 2.81/share

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 28th Apr-16 to announce financial results for 3QFY16. A 29%YoY plunge is predicted in earnings, to the tune of PKR 5.5bn (EPS PKR 2.81) in 3QFY16, as compared to PKR 7.8bn (EPS PKR 3.96) in corresponding period last year. Descending oil prices is the prime reason for declining profitability, in our view. Earnings for 9MFY16 is expected to decline by 42%YoY to PKR 17.3bn (EPS PKR 8.76). We expect PPL to book dry well cost for Hadi X-1 (Gambat South Block) and Lakki X-1 (Zindan Block) during 3QFY16.

Exhibit: Financial Highlights

| PKRmn | 3QFY16 | 3QFY15 | YoY | 9MFY16 | 9MFY15 | YoY |
|-------------------|--------|--------|------|--------|--------|------|
| Net Sales | 16,447 | 22,774 | -28% | 57,565 | 80,584 | -29% |
| Field Expenditure | 7,381 | 11,007 | -33% | 27,355 | 28,447 | -4% |
| Gross Profit | 7,152 | 9,155 | -22% | 23,513 | 42,706 | -45% |
| Other Income | 1,328 | 2,017 | -34% | 4,339 | 6,048 | -28% |
| PAT | 5,533 | 7,809 | -29% | 17,291 | 29,948 | -42% |
| EPS (PKR) | 2.81 | 3.96 | -29% | 8.77 | 15.19 | -42% |
| DPS (PKR) | - | - | | 2.25 | 4.50 | |

Source: IGI Research and Company Financials

Outlook

We expect sector profitability to improve going forward as oil prices have stabilized around USD 35-40/bbl. Our oil price assumption remains at USD 40/bbl for FY17 and USD 50/bbl for FY18 onwards. For PPL, considering oil & gas reserves depletion, Mardankhel discovery in Tal Block, Hatim X-1 (Gambat South) and Nashpa X-5 would provide some stability to earnings from FY17. However, KPD-TAY project and Mardankhel (Tal Block) should offer significant uptick to earning from FY17 onwards to OGDC. KPD-TAY and Mardankhel are both expected to commence production from 4QFY16.

Recommendation

Our top pick in the sector remains OGDC with Dec-16 TP of PKR 166/share, offering +41% upside from its last close. The company is currently trading at P/E of 8.1x, offering a dividend yield of 4.7%.

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| Sell | If return on aforementioned security(ies) is more than -10%, from its last closing price(s) |

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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