

Day Break

Monday, 24 October 2016

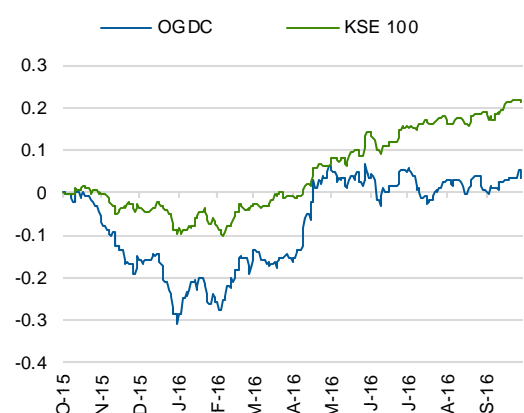
Sector Update

E&Ps	Target Price	Upside	P/E
OGDC	167.46	15%	7.90
MARI	1,279.29	29%	12.26

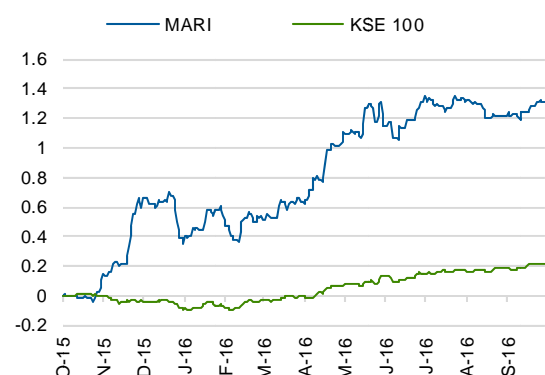
Earnings (PKR/share)				
	1QFY17E	YoY	4QFY16	MoM
OGDC	3.6	-16%	3.8	-7%
MARI	21.3	60%	19.6	9%

Dividend (PKR/share)				
	1QFY17E	1QFY16	4QFY16	
OGDC	1.25	1.50	2.00	
MARI	-	-	2.10	

OGDC Relative Performance to KSE 100



MARI: Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Oil & Gas Exploration Companies OGDC & MARI: Earnings Preview for 1QFY17

- Oil & Gas Development Company's (OGDC) board meeting is scheduled on 27th Oct-16, where we expect company to post earnings of PKR 15.4bn (EPS PKR 3.6) down by 16%YoY in 1QFY17 as compared to PKR 18.3bn (EPS PKR 4.3).
- Mari Petroleum Limited's (MARI) board meeting is scheduled on 25th Oct-16, where we expect company to post earnings of PKR 2.4bn (EPS PKR 21.3) up by +60%YoY in 1QFY17.
- We maintain "BUY" call on OGDC and MARI with our Jun-17 target prices of PKR 167/share and PKR 1,279/share, respectively, offering +15% and +29% upside from its last closing. OGDC and MARI are currently trading at a FY17E P/E of 7.9x and 12.3x, respectively.

OGDC; Earnings to Clock in at PKR 3.6/share in 1QFY17

Oil & Gas Development Company's (OGDC) board meeting is scheduled on 27th Oct-16, where we expect company to post earnings of PKR 15.4bn (EPS PKR 3.6) down by 16%YoY in 1QFY17 due a) 14%YoY drop in oil price to USD 43.2/bbl, and b) 2%YoY decline in oil production owing to lower production from Nashpa field. We anticipate the company to announce cash dividend of PKR 1.25/share, along with the result.

Exhibit: Financial Highlights

PKRmn	1QFY17E	1QFY16	YoY	4QFY16	MoM
Net Sales	38,794	44,513	-13%	40,155	-3%
Royalty	4,306	5,014	-14%	4,494	-4%
Operating Expenses	12,949	12,634	2%	15,002	-14%
Gross Profit	21,083	26,397	-20%	20,220	4%
Other Income	3,789	3,990	-5%	3,063	24%
Exploration and Prospecting	2,151	1,807	19%	3,839	-44%
Finance Cost	452	425	6%	465	-3%
WPP Fund	1,101	1,380	-20%	978	13%
PBT	20,758	26,228	-21%	18,583	12%
PAT	15,361	18,260	-16%	16,471	-7%
EPS (PKR)	3.57	4.25		3.83	
DPS (PKR)	1.25	1.50		2.00	

Source: IGI Research and Company Financials

MARI; Earnings to Clock in at PKR 21.3/share in 1QFY17

Mari Petroleum Limited's (MARI) board meeting is scheduled on 25th Oct-16, where we expect company to post earnings of PKR 2.4bn (EPS PKR 21.3) up by +60%YoY in 1QFY17 as compared to PKR 1.5bn (EPS PKR 13.3) in the same period last year. We attribute this accretion in profitability to a) Higher gas price for Mari field under revised Gas Price Agreement (GPA), b) +4%YoY rise in gas production from Mari gas field, and c) +14%YoY increase in oil production owing to production commencement from Halini Deep-1 in May-16.

Exhibit: Financial Highlights

PKRmn	1QFY17E	1QFY16	YoY	4QFY16	MoM
Net Sales	8,078	5,179	56%	6,268	29%
Royalty	1,023	662	55%	794	29%
Operating Exp	2,041	1,321	54%	1,621	26%
Exploration Exp	1,656	1,443	15%	1,319	26%
Gross Profit	3,171	1,633	94%	2,327	36%
Other Income	184	307	-40%	(443)	-142%
EBIT	3,356	1,940	73%	1,884	78%
Finance Cost	194	428	-55%	(633)	-131%
PBT	3,352	1,639	105%	2,548	32%
PAT	2,346	1,469	60%	2,161	9%
EPS (PKR)	21.28	13.32		19.60	
DPS (PKR)	-	-		2.10	

Source: IGI Research and Company Financials

Recommendation

We maintain “**BUY**” call on OGDC and MARI with our Jun-17 target prices of PKR 167/share and PKR 1,279/share, respectively, offering +15% and +29% upside from its last closing. OGDC and MARI are currently trading at a FY17E P/E of 7.9x and 12.3x, respectively.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun - 2017

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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Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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