

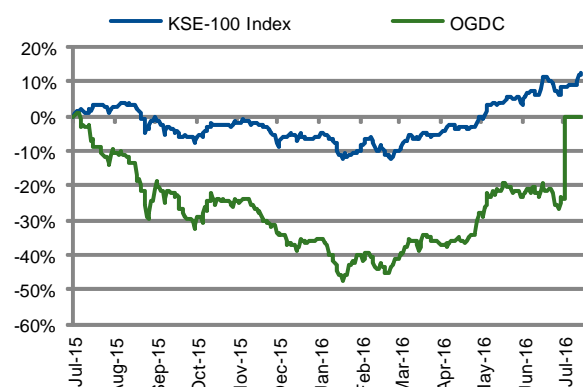
Day Break

Tuesday, 19 July 2016

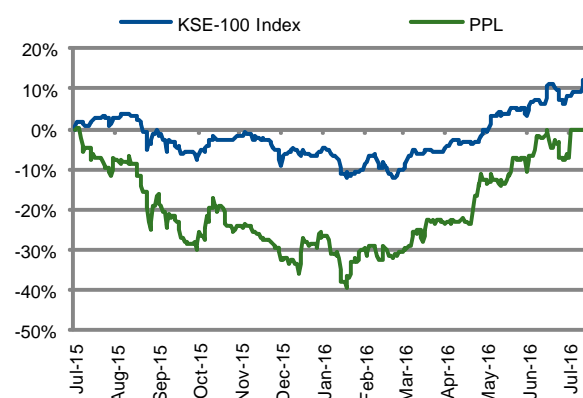
Sector Update

E&P	TP	P/E	D. Yld %
OGDC	162	9.44	4.48
PPL	179	10.75	4.58
POL	375	10.95	9.42

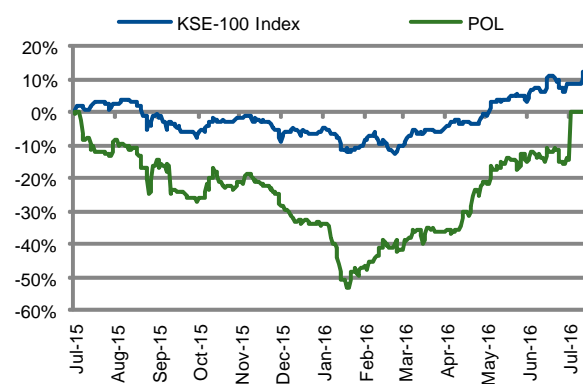
Relative Performance of OGDC to KSE-100



Relative Performance of PPL to KSE-100



Relative Performance of POL to KSE-100



Source: Bloomberg, KSE 100 & IGI Research

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Oil & Gas Exploration

Upgrading Oil Price Assumption to USD 45/bbl; OGDC Stands as Best Buy

- We have revised our oil price assumption to USD 45/bbl for FY17 from USD 40/bbl previously while our long term price remains at USD 50/bbl.
- OGDC remained a laggard among E&P sector which rallied +27% since Apr-16, on the back of foreign inflows, however its lowest amongst its peers as PPL and POL returns averaged ~40% during the same period vs return by KSE-100 of +18%.
- Based on our revised oil price assumption, we now have a **'HOLD'** stance on PPL and POL, while OGDC remain a **'BUY'** with Dec-16 Target Price of PKR 161.8/share.

Revising Our Oil price to USD 45/bbl for FY17; USD 50/bbl long term

Oil Prices have rallied by +26% since Apr-16 owing to a) outages in Nigeria and Canada cutting global oil supply by 0.8mnbpd, b) increase in global oil demand expected to reach 97.4mnbpd in 2017 and, c) drop in US crude inventories. We have revised our oil price assumption to USD 45/bbl for FY17 from USD 40/bbl previously, whereas our long term price remains at USD 50/bbl. Following the revision in oil price, our Dec-16 target prices for PPL, OGDC and POL come at PKR 178.6/share (up by +0.5%), PKR 161.8/share (up by +0.6%) and PKR 374.7/share (up by +1.2%), respectively. Thus we maintain a **'BUY'** stance on OGDC while PPL and POL have been revised to a **'HOLD'** call.

Recent Price Rally

OGDC remained a laggard among E&P sector which rallied +27% since Apr-16, on the back of foreign inflows, however its lowest amongst its peers as PPL and POL returns averaged ~40% during the same period vs return by KSE-100 of +18%. Overall performance in the sector was led by +26% increase in oil prices since Apr-16 and considerable foreign inflows in E&P sector. Company-wise, POL led the performance chart whereby stock gained nearly +48% since owing to discoveries from Tal block (Makori East and Tolanj West), having significant impact on company's bottom-line. While PPL in the same period rallied +32% owing to higher earnings growth expectation in FY17 following discoveries from Gambat South - expected to come online from 1QFY17.

Tuesday, 19 July 2016

OGDC; Best Buy Amongst Peers

OGDC stands out as our top pick among IGI E&P universe as it is trading at FY17F P/E ratio of 9.4x as compared to 10.8x and 11.0x for PPL and POL, respectively. Additional production from Kunar Pasakhi Deep - Tando Allah Yaar (KPD-TAY) still remains one of the key triggers which was due to commence production from 4QFY16 but has been delayed till 1QFY17 - this project alone is expected to add +12% to FY17 earnings. In addition, future re-rating could potentially come from inclusion in MSCI Emerging Market Index.

Outlook; All eyes on oil

Oil prices have increased owing to decline in US crude inventories, increase in global oil demand by 1.6mnbpd and disruption in Nigeria and Canada. Based on the recent oil price increase, we have upgraded our oil price assumption for FY17 to USD 45/bbl (previously USD 40/bbl) while maintaining USD 50/bbl as our long term price target. Given the volatile nature, we believe a) changes in US production data, b) China growth outlook, and c) Iran's and Saudi Arab ability to further increase its oil production will be key fundamental factors to monitor in terms of oil price movements.

Recommendation

Based on our revised oil price assumption, we now have a '**HOLD**' stance on PPL and POL, while OGDC remain a '**BUY**' with Dec-16 Target Price of PKR 161.8/share offering +12% return from its last closing price of PKR 144.9/share.

Exhibit: OGDC - EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	40.0	45.0	45.0	16.2	16.1	15.5	157.4
Base	45.0	50.0	50.0	17.0	17.0	16.3	161.8
Bull	50.0	55.0	55.0	17.9	17.8	17.1	166.2

Source: IGI Research

Exhibit: PPL - EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	40.0	45.0	45.0	16.6	16.2	15.7	168.8
Base	45.0	50.0	50.0	17.3	17.7	17.2	178.6
Bull	50.0	55.0	55.0	18.0	19.0	18.4	186.5

Source: IGI Research

Exhibit: POL - EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	40.0	45.0	45.0	35.5	38.3	37.5	353.8
Base	45.0	50.0	50.0	39.4	42.1	41.1	374.6
Bull	50.0	55.0	55.0	43.3	45.8	44.6	394.9

Source: IGI Research

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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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