

Day Break

Friday, 29 September 2017

Sector Update

E&P Sector Review

IGI E&P Sector

	TP	Upside	P/E	Recom.
OGDC	183.4	22%	7.8	BUY
PPL	212.6	22%	9.2	BUY
POL	539.7	2%	11.6	HOLD
MARI	2,059.0	37%	11.4	BUY

Oil Production

bopd	FY17	FY16	YoY
OGDC	44,041	40,609	8.5%
PPL	16,066	14,861	8.1%
POL	6,818	6,312	8.0%
MARI	1,518	1,294	17.3%

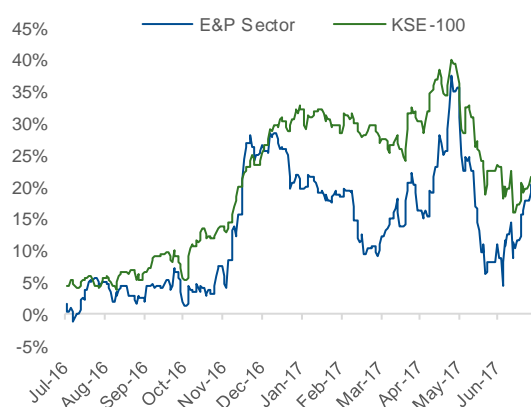
Gas Production

mmcf	FY17	FY16	YoY
OGDC	1,051	1,056.0	-0.5%
PPL	857	821.0	4.4%
POL	78	75.0	4.0%
MARI	668	636.0	5.0%

Oil & Gas Reserves

mnbOE	FY17	FY16	YoY
OGDC	1,160	1,237	-6%
PPL	661	649	2%
POL	61	62	-2%
MARI	909	570	60%

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas – Exploration Companies E&P companies in desperate need of another Sui or Mari

FY17: Sector profitability corroborated by higher oil prices and production

Pakistan E&P sector under-performed KSE-100 by 14% posting a return of 9% in FY17 as compared to 23% for benchmark index. Overall sector profitability increased substantially by +30.7%YoY in FY17, led by a +19%YoY rise in oil prices and +8.5%/+2.6%YoY increase in oil/gas production. OGDC /PPL /POL/MARI earnings augmented by +6.4%/+106.9%/+33.8%/+51.0%YoY in FY17. E&P Sector P/E (trailing) stood at 9.97x in FY17 compared to 11.95x in FY16.

Pakistan's oil and gas reserves stand at 332mnbbbl and 20.8tcf as at FY17

According to the data published by PPIS, Pakistan's total oil and gas 2P reserves stands at 332mnbbbl and 20.8tcf as at Jun-17. During FY17 Pakistan's oil reserves declined by 5%YoY to 332mnbbbl compared to 351mnbbbl at Jun-16, whereas gas reserves increased by +9%YoY to 20.8tcf from 19.2tcf. Depletion witnessed a slowdown compared to last year where oil reserves declined by 9%, whereas gas reserves increased by +5%.

A year with positive Reserve Replacement for all E&P companies in IGI Universe

During FY17, IGI E&P universe companies witnessed a positive Reserve Replacement Ratio (RRR). MARI led the way with highest RRR of 899% for gas owing to 64% increase in Mari field reserves during the year. POL witnessed a highest RRR for oil owing to addition of Mardankhel reserves. PPL reported second highest RRR of 123% for gas owing to addition of Mardankhel and upward revision in Kandhkot reserves. OGDC remained the laggard with regards to RRR for oil and gas with RRR ratio of 2% and 21% respectively despite addition of Mardankhel owing to high base of reserves.

IGI E&P Universe's oil/gas production grew by +8.5% / +2.6%YoY in FY17

Total oil and gas production of IGI E&P universe grew by +8.5%YoY and +2.6%YoY to 68,443bopd and 2,654mmcf, respectively in FY17. For OGDC, oil production augmented by +8.5%YoY to 44,041bopd while gas production witnessed a decline of 0.5%YoY to 1,051mmcf in FY17, PPL reported an uptick in oil and gas production of +8.1%YoY and +4.4%YoY to 16,066bopd and 857mmcf respectively in FY17, while POL posted a growth of +8.0%YoY and +3.6%YoY in oil and gas production to 6,818bopd and 78mmcf respectively in FY17. MARI remained the leader posting +17.3%YoY and +5.0%YoY rise in oil and gas production to 1,518bopd and 668mmcf, respectively in FY17.

Profitability to grow by +23%YoY in FY18F

Looking ahead, we estimate industry profitability to grow by a +23% to PKR 1146bn and thereby maintaining a 3Yrs CAGR of +12%. Primarily we say this owing to improved profitability led by stability in oil prices, slightly higher than FY16 level and additional production through new discoveries coming online. E&P industry is currently trading at FY18 forward P/E multiple of 8.78x.

Recommendation

MARI remains our top pick with our Jun-18 Target Price of PKR 2,059/share offering 37% upside from it last close. We have a 'BUY' call on PPL and OGDC with our Jun-18 Target Price of PKR 213/share and PKR 183/share respectively, offering 22% upside each from last closing. However, we have a 'HOLD' call on POL with our Jun-18 Target Price of PKR 540/share, offering 2% upside from last close.

Sector Profitability

FY17: Sector profitability corroborated by higher oil prices and production

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Exhibit:

Company Wise Profitability (PKRmn)

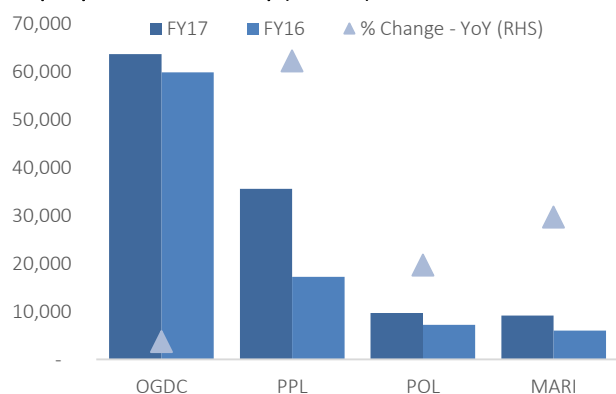
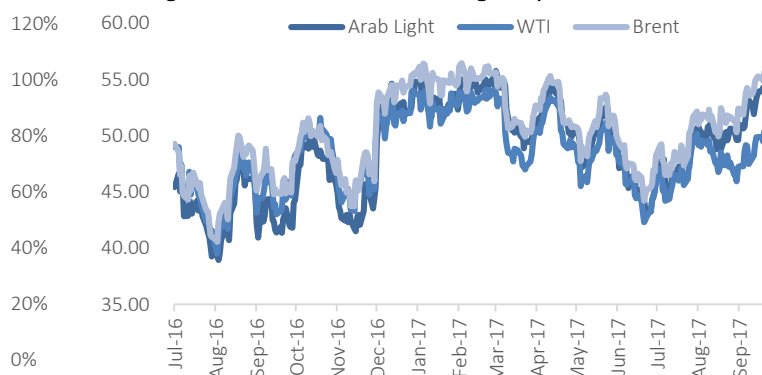


Exhibit:

Arab Light Oil Price Movement during the year



Source: IGI Research, Company Financials, Bloomberg, PSX

PPL and MARI led with highest earnings growth

E&P sector earnings are up by +30.7%YoY in FY17 led by PPL posting +106.9%YoY growth in profitability owing to low base effect as provisions were restated owing to impairment in holding of subsidiary. Besides PPL, MARI led the earnings growth chart by recording a +51%YoY jump in profitability led by higher gas production and price incentives offered in respect. However, OGDC remained laggard posting a mere +6.4%YoY incline in earnings in FY17. As a result, MARI led with the highest 12M return of 63.8%, while PPL led the 6M return chart with highest return of 14.3%.

Exhibit:

E&P sector performance compared to KSE-100 index

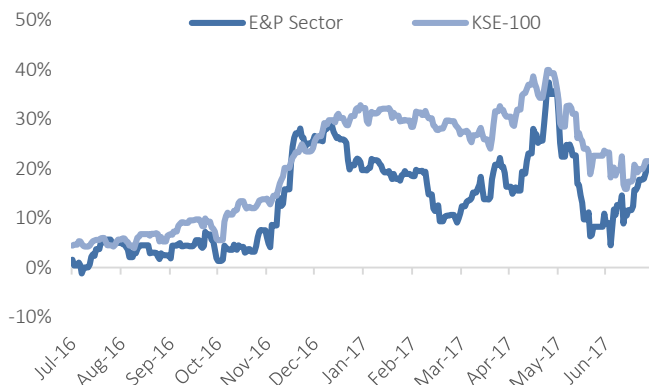
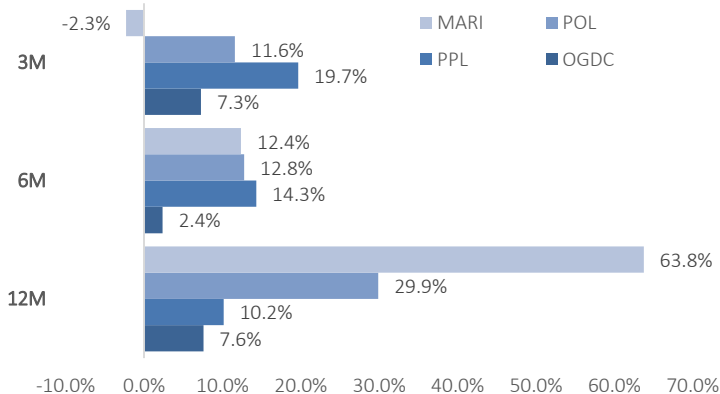


Exhibit:

MARI leading the pack posting highest return of 64% in Last 12 Months



Source: IGI Research, Company Financials, Bloomberg, PSX

Pakistan Oil & Gas Reserves as at Jun-17

Pakistan's oil and gas reserves stand at 332mnbbl and 20.8tcf as at FY17

According to the data published by PPIS, Pakistan's total oil and gas 2P reserves stands at 332mnbbl and 20.8tcf as at Jun-17. During FY17 Pakistan's oil reserves declined by 5%YoY to 332mnbbl compared to 351mnbbl at Jun-16, whereas gas reserves increased by +9%YoY to 20.8tcf from 19.2tcf. Depletion witnessed a slowdown compared to last year where oil reserves declined by 9%, whereas gas reserves increased by +5%.

OGDC: Oil and gas reserves down by 9%YoY and 6%YoY respectively in FY17

OGDC's total oil and gas 2P reserves declined by 9%YoY and 6%YoY respectively to stand at 163mnbbls and 5.7tcf, translating to cumulative reserves of 1.2bnBoE. Depletion of reserves was higher for oil compared to last year which stood at 3%, while for gas depletion rate remained the same at 6%. Oil production increased by +8.5%YoY to 44,041bopd as compared to 40,609bopd in FY16 owing to higher oil production from Adhi and Nashpa. However, gas production declined by 0.5%YoY to 1,051mmcf compared to 1,056mmcf in FY16 owing to constant decrease in production from Qadirpur which contributes nearly 22% of total gas production. Company's oil and gas reserve life stands at 10.7yrs and 10.2yrs respectively, translating to total reserve life of 10.3yrs.

Exhibit:
OGDC Oil & Gas Reserves (Historical)

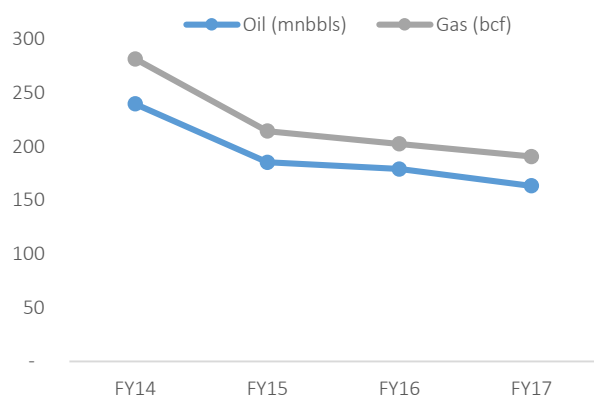
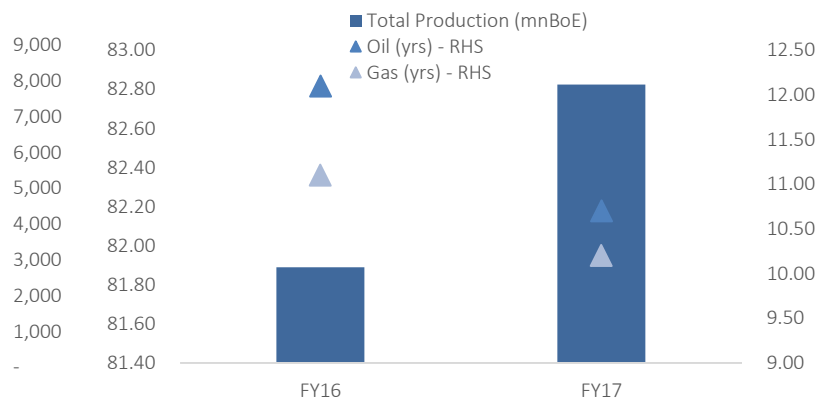


Exhibit:
OGDC – Total Production and Reserve life



Source: IGI Research, Company Financials, PPIS

MARI: Oil reserves down by 27%YoY while gas reserves up substantially by +60%YoY in FY17

MARI's total 2P oil reserves declined by 27%YoY in FY17 to stand at 1.3mnbbls compared to a drop of 14%YoY in FY16, whereas total 2P gas reserves leaped up substantially by +60%YoY to 5.2tcf as of Jun-17 compared to a drop of 6% in FY16. This significant increase in gas reserves was due to upward revision in Mari field gas reserves during FY17 from a total of 3.2tcf in FY16 to 5.1tcf currently (up by +64%). Total oil production for MARI increased by +17%YoY to 1,518bopd led by production commencement from Halini Deep. Gas production increased by 5.1%YoY to 668mmcf owing to higher production from Mari field. The company's oil and gas reserve life stands at 7.5yrs and 21.6yrs respectively, translating to a total reserve life of 21.5yrs.

Exhibit:

MARI Oil & Gas Reserves (Historical)

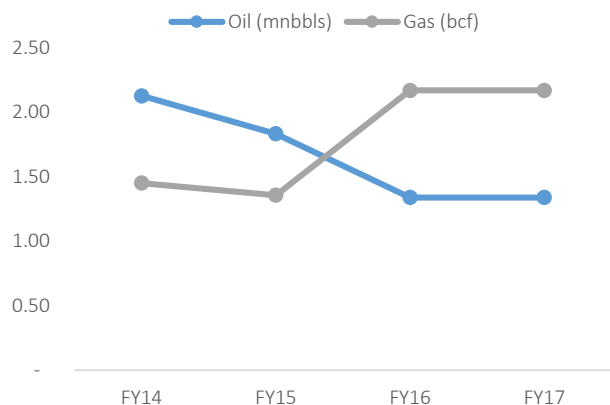
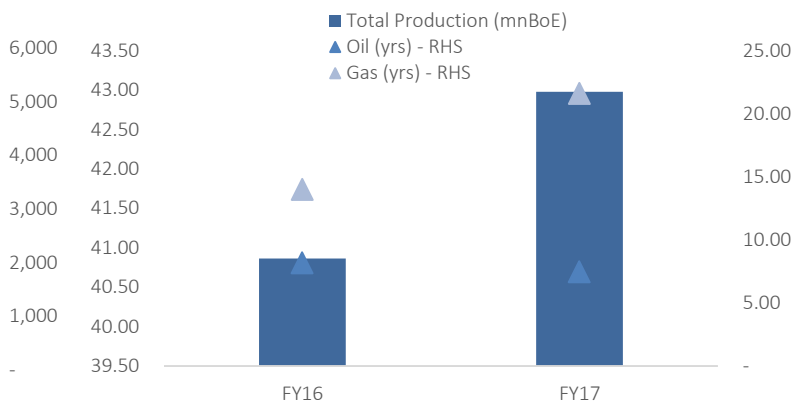


Exhibit:

MARI – Total Production and Reserve life



Source: IGI Research, Company Financials, PPIS

PPL: Oil reserves down by 3%YoY while gas reserves up by +2%YoY in FY17

PPL's total 2P oil reserves declined by 3%YoY to stand at 64mnbbls in FY17 compared to a drop of 7%YoY in FY16, whereas total 2P gas reserves increased by +2%YoY to 3.4tcf compared to 8%YoY decline in FY16. This translates to a cumulative reserve of 0.66bnBoE. Oil production surged by +8.1%YoY to 16,066bopd as compared to 14,861bopd in FY16 owing to higher production from Adhi and Nashpa. Gas production increased by +4.4%YoY to 857mmcf from 821mmcf in FY16 mainly due to higher production from Kandhkot and Sui. Company's oil and gas reserve life stands at 11.06yrs and 10.6yrs respectively, translating to a total reserve life of 10.6yrs.

Exhibit:

PPL Oil & Gas Reserves (Historical)

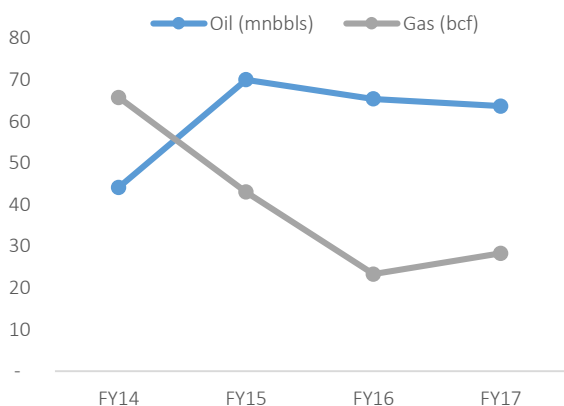
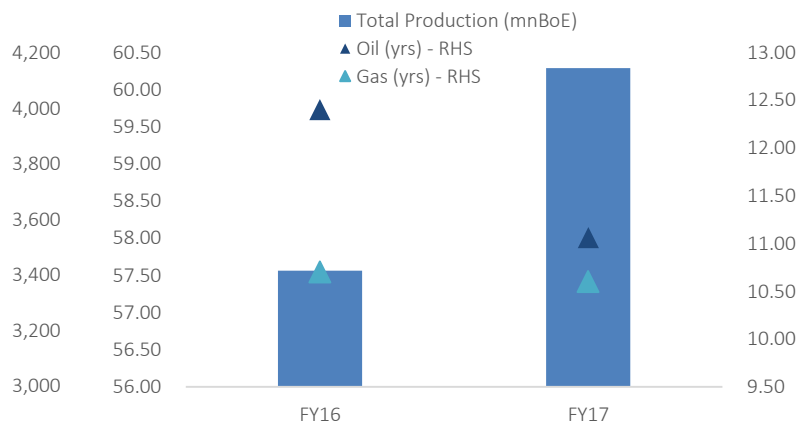


Exhibit:

PPL – Total Production and Reserve life



Source: IGI Research, Company Financials, PPIS

POL: Oil and gas reserves down by 1%YoY and 3%YoY respectively in FY17

POL's total 2P oil reserves declined by 1%YoY to stand at 20mnbbls compared to 21mnbbls in FY16, while total 2P gas reserves dropped by 3%YoY to 0.2bcf compared to 0.23bcf in FY16. This translates in to a cumulative reserve of 0.06bnBoE. Oil production increased by +8.0%YoY to 6,818bopd as compared to 6,312bopd in FY17 owing to production commencement from Mardankhel and increased production from Nashpa and Adhi. Gas production augmented by +3.6%YoY to 78mmcf from 75mmcf in FY16 as production from Mardankhel came online. The company's oil and gas reserve life stands at 7.4yrs and 8.1yrs, respectively translating in to total reserve life of 7.9yrs.

Exhibit:
POL Oil & Gas Reserves (Historical)

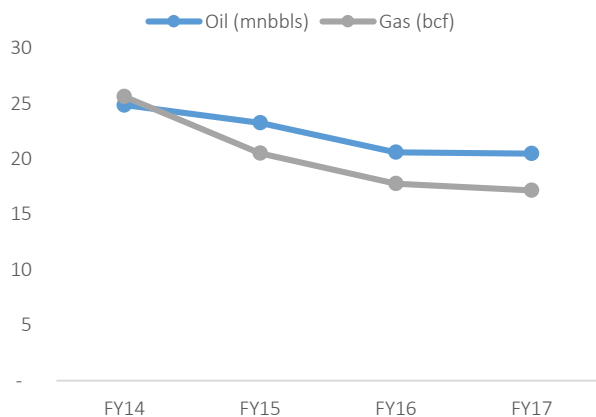
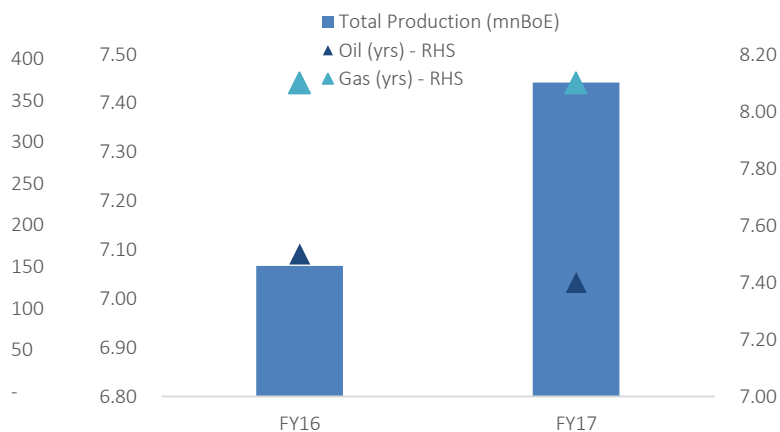


Exhibit:
POL – Total Production and Reserve life



Source: IGI Research, Company Financials, PPIS

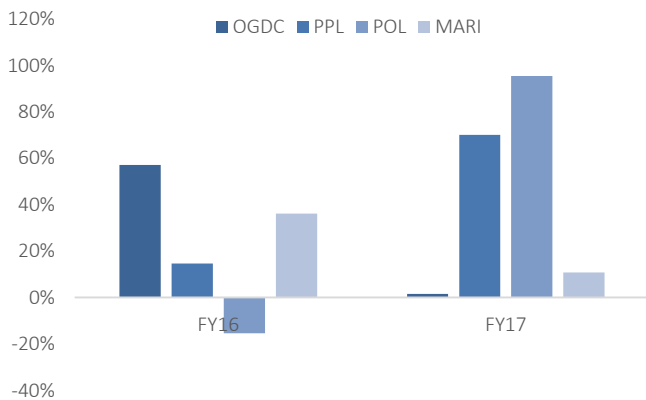
MARI leads with highest Reserve Replacement Ratio (RRR)

A year with positive Reserve Replacement for all E&P companies in IGI Universe

During FY17, IGI E&P universe companies witnessed a positive Reserve Replacement Ratio (RRR). MARI led the way with highest RRR of 899% for gas owing to 64% increase in Mari field reserves during the year. POL witnessed a highest RRR for oil owing to addition of Mardankhel reserves. PPL reported second highest RRR of 123% for gas owing to addition of Mardankhel and upward revision in Kandhkot reserves. OGDC remained the laggard with regards to RRR for oil and gas with RRR ratio of 2% and 21% respectively despite addition of Mardankhel owing to high base of reserves.

Exhibit:

Oil - Reserve Replacement Ratio



Source: IGI Research, Company Financials, PPIS

Exhibit:

Gas - Reserve Replacement Ratio

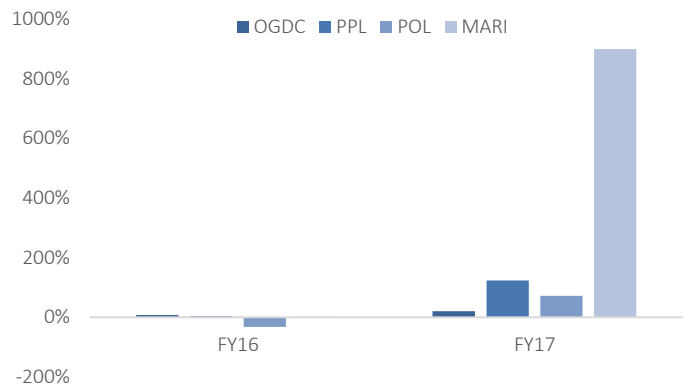
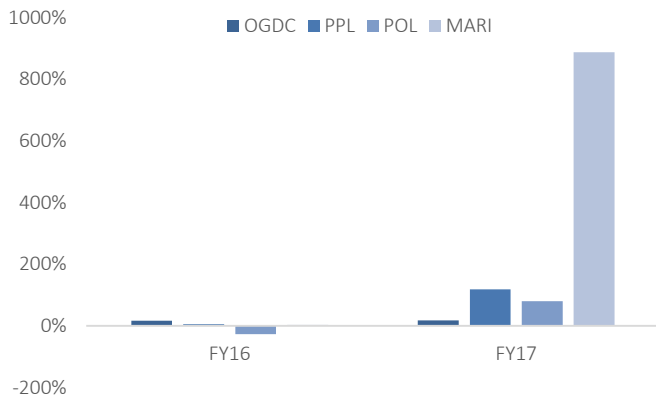


Exhibit:

Total - Reserve Replacement Ratio (BoE)



Source: IGI Research, Company Financials, PPIS

Production growth remained impressive in FY17

IGI E&P Universe's oil/gas production grew by +8.5% / +2.6%YoY in FY17

Total oil and gas production of IGI E&P universe grew by +8.5%YoY and +2.6%YoY to 68,443bopd and 2,654mmcf, respectively in FY17. For OGDC, oil production augmented by +8.5%YoY to 44,041bopd while gas production witnessed a decline of 0.5%YoY to 1,051mmcf in FY17, PPL reported an uptick in oil and gas production of +8.1%YoY and +4.4%YoY to 16,066bopd and 857mmcf respectively in FY17, while POL posted a growth of +8.0%YoY and +3.6%YoY in oil and gas production to 6,818bopd and 78mmcf respectively in FY17. MARI remained the leader posting +17.3%YoY and +5.0%YoY rise in oil and gas production to 1,518bopd and 668mmcf, respectively in FY17.

MARI ahead of its peers with regards to production growth in FY17

MARI posted a +17.3%YoY rise in oil production to 1,518bopd in FY17 compared to 1,294mmcf last year on the back of production commencement from Halini Deep adding 636bopd in FY17 while production from Halini and Ghauri declined by a total of 171bopd. Gas production increased by +5.1%YoY to 668mmcf as compared to 636mmcf last year on the back of +4.2%YoY and +44.9%YoY rise in production from Mari field and Sujjal field.

Exhibit:

Oil production (company-wise)

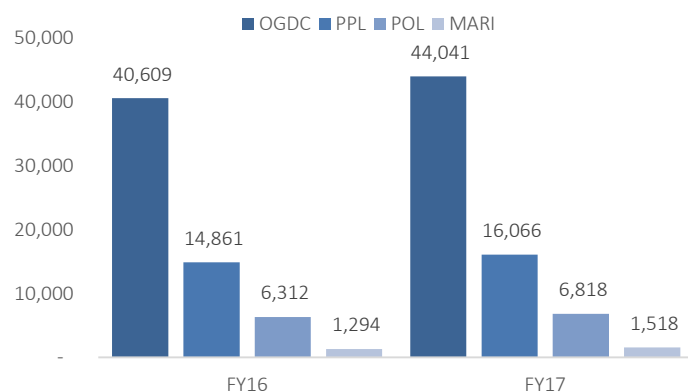
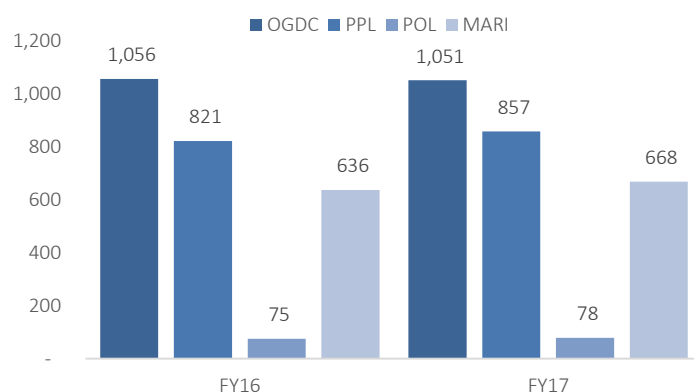


Exhibit:

Gas production (company-wise)



Source: IGI Research, Company Financials, PPIS

Additional production to come online in FY18

We expect additional production for OGDC through new discoveries coming online to add 8,209bopd and 429mmcf of incremental oil and gas production by FY19, adding PKR 4.24/share and PKR 7.15/share in FY18 and FY19, respectively. For PPL we foresee new discoveries to add 1,722bopd and 78mmcf of oil and gas production by FY19 adding PKR 1.05/share and PKR 3.19/share in FY18 and FY19, respectively. For POL we anticipate additional production to add 1,487bopd and 11mmcf of gas by FY19 cumulatively adding PKR 5.05/share and PKR 9.61/share to earnings in FY18 and FY19. For MARI we estimate incremental oil and gas production of 513bopd and 15mmcf of oil and gas production by FY19, which in total will add PKR xx/share and PKR xx/share to earnings in FY18 and FY19.

However drilling activity and discoveries made during FY17 slowed down

Drilling activity witnessed a slowdown...

A total of 84 wells were spudded, which included 36 exploratory and 48 development/appraisal wells, against 90 wells planned (48 exploratory and 42 development/appraisal wells). This is in comparison with 99 wells drilled in FY16 (46 exploratory and 53 development/appraisal wells) against a target of 94 wells (54 exploratory and 40 development/appraisal wells). OGDC and PPL spudded 9 exploratory and 13 development/appraisal wells each respectively, while MARI spudded 8 wells which included 5 exploratory and 3 development/appraisal wells. The rest of the 13 exploratory and 19 development/appraisal wells were drilled by other private sector companies.

...with major focus on Development wells

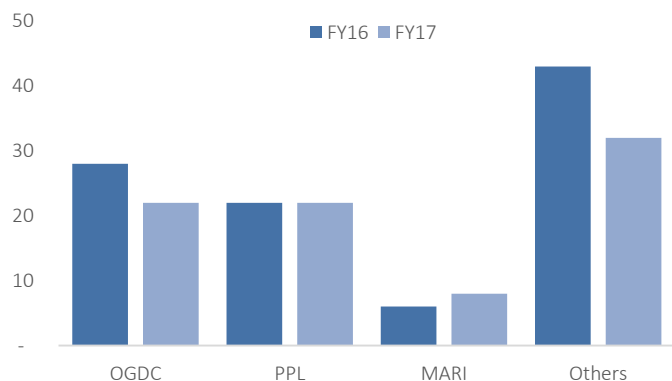
Although the number of wells drilled against number of wells planned were not met during FY17, the focus remained tilted towards development/appraisal wells. The actual development/appraisal wells drilled in FY17 were 6 wells higher than 42 wells planned for the year. OGDC and PPL exceeded the target development/appraisal wells while falling short of planned exploratory wells. The actual development/appraisal wells drilled in FY16 exceeded the target by 13 wells to stand at 53 wells. OGDC, MARI and other private sector companies exceeded their target for development/appraisal wells while PPL drilled the exact amount of wells as planned. Whereas OGDC and PPL remained short of planned exploratory wells.

...as Government fails to offer new blocks for drilling

The Government of Pakistan (GoP) has failed to offer new blocks/concession for bidding which is beginning to hurt local E&P companies as they fail to meet their planned drilling target with rising dry wells encountered and absence of any sizeable discovery. Adding further to the problem are the concerns associated with Baluchistan in terms for executing seismic activity and drilling as the province remains a highly unexplored area. However, recently local companies have expressed their intention to intensify and plan extensive seismic and drilling activities in Baluchistan.

Exhibit:

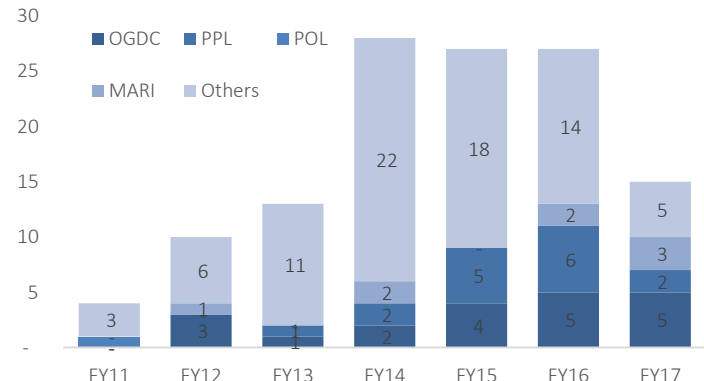
Wells spudded in FY17, OGDC leading the pack



Source: IGI Research, PPIS

Exhibit:

Company-wise Discoveries made (Historical)



A total of 15 discoveries were made, lowest in last 4 years...

During FY17, a total of 15 discoveries were made which is the lowest in the last 4 years. Out of the 15 discoveries made OGDC, PPL, POL and MARI made 5, 2, 0 and 3 discoveries in company operated blocks. For OGDC, the number of discoveries made stood at highest level in the last 7 years, while for MARI this year marked the highest number of discoveries ever. Whereas for PPL, the number of discoveries stood equal at a four year low. For POL the company has not made any discovery since 2011. MOL failed to make any discovery in FY17 compared to 2 and 4 discoveries in FY16 and FY15 respectively, all in Tal block.

Exhibit:

Discoveries made during FY17

Company	Well	Date of Discovery	Type
MPCL	Shahbaz-1	September-2016	Gas
UEP	Rawat-1	September-2016	Oil
PPL	Bashar X-1	September-2016	Gas
UEP	Makrani-1	October-2016	Gas Cond.
OGDCL	Khamiso-1	November-2016	Gas
OGDCL	Mithri-1	November-2016	Gas
OGDCL	Gundanwari-1	November-2016	Gas Cond.
UEP	Dang-1	November-2016	Oil
UEP	Mohib-1	January-2017	Gas
MPCL	Shaheen-1	February-2017	Gas
OGDCL	Chhutto-1	March-2017	Gas Cond.
PPL	Zafir X-1	April-2017	Gas Cond.
MPCL	Aqeeq-1	May-2017	Gas Cond.
OGDCL	Chabaro-1	June-2017	Gas Cond.
UEP	Ali-2	June-2017	Gas

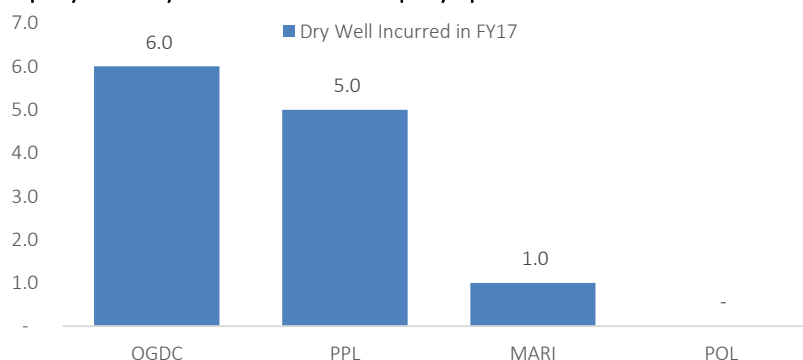
Source: IGI Research, PPIS

While a total of 14 wells were encountered as dry

As a result, a total of 14 wells were reported dry and abandoned including 5 operated by PPL, 6 operated by OGDC and 1 MARI operated against 22 wells spudded by OGDC and PPL each while 8 wells by MARI. This was in comparison to 3 dry wells each for OGDC and PPL recorded in FY16 against a total of 28 wells and 22 wells spudded.

Exhibit:

Company wise Dry well incurred in Company operated blocks



Source: IGI Research, PPIS, PPIS Report 2015-16

100 wells planned for FY18

A total of 100 wells are planned for drilling in FY18 out of which 66 will be exploratory wells and 34 development/appraisal wells. OGDC has planned a total of 24 wells including 15 exploratory and 9 development/appraisal wells. PPL has planned a total of 21 wells to be drilled during FY18 including 14 exploratory and 7 development/appraisal wells. The rest of the 56 wells are divided among the private sector. Recent drilling report reveals that currently 22 exploratory wells and 11 development wells are being drilled.

Exhibit:

DRILLING REPORT (SEP-2017)**EXPLORATORY WELLS**

Well Name	Concession/Lease	Operator	Spud-in Date	Target Depth in Meters	Present Depth (M)	Status
Surqamar-01	(Gurgalot(3371-5)	OGDC	07/03/2015	5,600	4,968	Testing
Pirkoh Deep-01	(Pirkoh)	OGDC	20/03/2016	4,950	4,950	Testing
Jhandial-01	(Ikhlas (3372-18)	POL	22/08/2016	5,477	5,639	Testing
Ranipur-01	(Ranipur (2768-11)	OGDC	23/12/2016	4,666	4,746	Testing
Kahca Khel-01	(Nashpa(3370-10)	OGDC	20/03/2017	4,560	3,359	Drilling in Progress
Kalat X-01	(Kalat (3370-10)	PPL	15/04/2017	3,940	3,754	Drilling in Progress
Tolanj East-01	(TAL (3370-3)	MOL	27/04/2017	5,557	2,917	Drilling in
Manchar X-01	(Zamzama South (26 PPL		16/05/2017	3,409	3,633	Temporarily Suspended
Bago-01	(Khipro (2568-6)	UEPL	24/05/2017	3,994	3,987	Testing
Dhok Hussain-01	(Baratai (3371-17)	OGDC	24/05/2017	5,000	3,101	Drilling in Progress
Rawat North-01	(Khipro (2568-6)	UEPL	10/06/2017	3,554	3,581	Testing
Ghungthro Deep-01	(Ghungthro)	UEPL	12/06/2017	3,513	3,514	Testing
Resham West-01	(Sinjhor (2568-5)	OGDC	24/06/2017	3,500	3,500	Drilling in Progress
Tando Allah Yar South West-01	(Tando Allah Yar)	OGDC	25/06/2017	3,250	3,250	Gas Cont
Zarbab X-01	(Hala (2568-13)	PPL	27/06/2017	4,213	4,147	Testing
Khanjar-01	(Nashpa (3370-10)	OGDC	29/06/2017	5,020	2,853	Drilling in Progress
Adhi South X-01	(Adhi)	PPL	30/06/2017	3,625	1,800	Drilling in Progress
Tipu-01	(Mari)	MARI	05/07/2017	3,950	3,324	Drilling in Progress
Oderolal-01	(Mirpur Khas (2568-7	UEPL	28/07/2017	4,015	3,990	Testing
Mohri-01	(Bukhari)	UEPL	10/08/2017	3,155	3,002	POOH is in Progress
Babarki-01	(Bukhari)	UEPL	02/09/2017	2,870	2,425	Drilling in Progress
Hub X-1	(Hab (2566-4)	PPL	09/09/2017	3,176	216	Drilling in Progress

APPRAISAL/DEVELOPMENT WELLS

Well Name	Concession/Lease	Operator	Spud-in Date	Target Depth in Meters	Present Depth (M)	Status
Mela-05	(Mela)	OGDC	26/09/2016	5,320	4,262	Drilling in Progress
Rajian-10	(Rajian)	OGDC	05/12/2016	3,700	3,705	Oil
Makori East-06	(Makori East)	MOL	22/01/2017	5,104	5,155	POOH is in Progress
Nashpa-08	(Nashpa)	OGDC	16/03/2017	4,525	3,668	POOH is in Progress
Adhi-29	(Adhi)	PPL	24/03/2017	3,367	3,495	Gas Cond.
Rizq-02	(Kirthar (2667-7)	POGC	01/05/2017	3,100	2,851	Cementing
Adhi-30	(Adhi)	PPL	28/05/2017	2,861	2,720	Drilling in Progress
Pasakhni Deep-07	(Pasakhi & Pasakhi	OGDC	18/06/2017	3,425	668	Rig Shifting
Bitrism West-02	(Bitrisim (2568-4)	OGDC	21/06/2017	3,570	3,379	Drilling in Progress
Kandhkot H-39	Kandhkot)	PPL	30/07/2017	2,380	2,381	Gas
Ali-03	(Ali)	UEPL	11/08/2017	3,834	3,457	Drilling in Progress

Source: PPIS, IGI Research

So far only 2 discoveries made in FY18

So far in FY18TD, there have been only two discoveries made by OGDC namely Bhambra in Thal Block (OGDC operated – 100% stake) and Tando Allah Yar South West-01 in Tando Allah Yar block (OGDC operated – 100% stake). Cumulatively these discoveries are expected to add 10.73mmcf of gas and 72bopd of condensate. These discoveries though will add to Pakistan's oil and gas reserves, but still stand significantly short of what the country needs to arrest the concern of rapidly depleting reserve base.

Exhibit

Discoveries in FY18TD

Date	Well	Block	Operator	Stake (%)	Quantity	Product
25-Sep-17	Tando Allah Yar South West-1	Tando Allah Yar	OGDC	77.50%	10.00 72.00	Gas (mmcf) Condensate (bopd)
4-Aug-17	Bhambhra 1	Thal Block	OGDC	100.0%	5.73	Gas (mmcf)

Source: IGI Research, PSX, PPIS

Sector Outlook

Summary

Despite marred by lower oil prices, we believe IGI E&P universe companies performed reasonably to post a +30.7%YoY growth in profitability in FY17. This outstanding performance was further corroborated by a positive RRR ratio in FY17 indicating reserve addition outpacing the depletion rate. However, we highlight that no matter reasonable discoveries have been made in the past few years, the E&P sector still has not been able to arrest the concern of fast depleting reserves as the discoveries made are not substantial especially for OGDC owing to high base. We believe that E&P sector requires a substantial addition in reserves such as Nashpa or Adhi to increase its average oil reserve life of nearly 10 years, whereas a similar to Sui or Mari addition is also needed for average reserve life of gas reserves to go beyond 10 years.

Profitability to grow by +23%YoY in FY18

Looking ahead, we estimate industry profitability to grow by a +23%YoY to PKR 1146bn and thereby maintaining a 3Yrs CAGR of +12%. Primarily we say this owing to improve profitability led by stability in oil prices, slightly higher than FY16 level and additional production through new discoveries coming online. E&P industry is currently trading at FY18 forward P/E multiple of 8.78x.

Exhibit:

E&P Sector Highlight

Company	Market Cap (USD mn)	EPS (PKR)		P/E x		Earnings Growth (%)		Dividend Yield (%)		ROE (%)	
		FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
OGDC	6,132	19.23	21.82	7.82	6.89	30%	13%	4.5%	5.0%	14.5%	14.8%
PPL	3,273	19.11	21.73	9.15	8.05	6%	14%	4.9%	5.4%	16.5%	16.9%
MARI	1,570	131.42	173.95	11.42	8.63	59%	32%	0.4%	0.4%	50.3%	40.5%
POL	1,193	45.88	56.08	11.59	9.48	12%	22%	7.9%	10.3%	34.2%	41.5%

Source: IGI Research, PSX

MARI as our top pick, highest earnings growth and ROE...

We maintain MARI as our top pick with our rolled over and revised Jun-18 Target Price of PKR 2,059.0/share, offering +37% upside from it last closing. We expect the company to post +59%YoY earnings growth in FY18 with a 3Yr earning CAGR of 36%. The company is currently trading at FY18 forward P/E of 11.4x. We base our investment case on:

- Unwinding of discounts to wellhead gas price gradually to reach 100% of the price by FY19.
- Petroleum Policy 2012 (PP12) price incentive for 10% increase in production over and above benchmark of 525mmcf from Mari HRL field.
- Management plans to increase production from Mari field after upward revision by 64% in Mari field reserves to reach nearly 775mmcf from 632mmcf in FY17.
- Demand from Guddu power plant to increase after successful installation of compressors to utilize additional 60mmcf of gas and as a result current production stands at 666mmcf from 632mmcf in FY17.
- Benchmark for PP12 price incentive lowered to 477.5mmcf from 525mmcf for days of annual turnaround of customers' plant.

E&P Sector

MARI

Recommendation		BUY
Target Price:		2,059
Last Closing: 28-Sep-17		1,501
Upside:		37.1%

Key Company Financials

PKRbn	FY16A	FY17E	FY18F	FY19F
Net Income	6.05	9.14	14.49	19.18
EPS (PKR)	54.89	82.87	131.42	173.95
DPS (PKR)	5.10	5.60	5.60	5.90

Key Financial Ratios

P/E (x)	27.35	18.12	11.42	8.63
P/B (x)	9.76	10.54	5.74	3.50

OGDC

Recommendation		BUY
Target Price:		183.4
Last Closing: 28-Sep-17		150.3
Upside:		22.0

Key Company Financials

PKRbn	FY16A	FY17E	FY18F	FY19F
Net Income	59.97	63.80	82.70	93.86
EPS (PKR)	13.94	14.83	19.23	21.82
DPS (PKR)	5.20	6.00	6.75	7.50

Key Financial Ratios

P/E (x)	10.78	10.13	7.82	6.89
DY (%)	3.46	3.99	4.49	4.99

PPL

Recommendation		BUY
Target Price:		212.6
Last Closing: 28-Sep-17		175.0
Upside:		21.5

Key Company Financials

PKRbn	FY16A	FY17E	FY18F	FY19F
Net Income	17.24	35.68	37.69	42.85
EPS (PKR)	8.74	18.10	19.11	21.73
DPS (PKR)	5.75	6.50	8.50	9.50

Key Financial Ratios

P/E (x)	20.01	9.67	9.15	8.05
DY (%)	3.29	3.72	4.86	5.43

POL

Recommendation		NEUTRAL
Target Price:		539.7
Last Closing: 28-Sep-17		531.8
Upside:		1.5

Key Company Financials

PKRbn	FY16A	FY17E	FY18F	FY19F
Net Income	7.23	9.7	10.9	13.3
EPS (PKR)	30.6	40.9	45.88	56.08
DPS (PKR)	35.0	45.0	42.0	55.0

Key Financial Ratios

P/E (x)	17.4	13.0	11.59	9.48
DY (%)	6.6	8.5	7.90	10.34

While PPL remains our second best pick

We have a 'BUY' call on PPL with our rolled over and revised Jun-18 Target Price of PKR 212.7/share, offering +22% upside from it last closing. The company is currently trading at FY18 forward P/E of 9.2x. We expect the company to post +6%YoY earnings growth in FY18F with a 3Yr earning CAGR of 6%. It is pertinent to mention that earnings growth is diluted due to one off retrospective payment received in respect of Sui field price revision booked in FY17. We base our investment case on:

- Higher wellhead gas price offered for Sui field under revised Gas Price Agreement (GPA), linked with PP12 price.
- Increase in production from Kandhkot (second largest gas producing field for PPL).
- Additional production to add nearly PKR 1.05/share and PKR 3.19/share to FY18F and FY19F earnings, respectively.

OGDC: Flows from KPD-TAY and Uch development project remain impetus to earnings growth

We have a 'BUY' call on OGDC with our rolled over and revised Jun-18 Target Price of PKR 183.4/share, offering +22% upside from it last closing. The company is currently trading at FY18F forward P/E of 7.8x. We expect the company to post +30%YoY growth in earnings in FY18F with a 3Yr earning CAGR of 12%. We base our investment case on:

- KPD-TAY and Uch development project to cumulatively add 325mmcf of gas, 5,100 bopd of condensate and 410mtpd of LPG in FY18, however actual flows could fall below par.
- Total additional production coming online from new discoveries in company operated and non-operated blocks to add PKR 4.24/share and PKR 7.15/share in FY18F and FY19F, respectively.
- PIB maturity proceeds to likely result in one time dividend payout or acquisition of E&P firms (outside or in Pakistan).

POL: No reserve growth prospect outside of Tal Block

We have a 'HOLD' call on POL with our rolled over and revised Jun-18 Target Price of PKR 539.7/share, offering +2% upside from it last closing. The company is currently trading at FY18 forward P/E of +11.6x. We expect the company to post +12%YoY earnings growth in FY18 with a 3Yr earning CAGR of 11%. We base our investment case on:

- Tal block contributes nearly 67% and 80% of total oil and gas production which has on average 7 to 8 years of reserve life left. The company in the absence of no further addition in reserves beside Tal block will struggle to stay profitable after 7 to 8 years.
- However, high dividend yield of 8% makes it an attractive low risk investment at a time of stable or rising oil prices.
- Oil revenue contributes nearly 45% of total sales making it highly vulnerable to oil prices.
- Recent discovery in Ikhlas block (POL operated) as announced by the company, could add significantly to company's reserve base if the quantum of discovery turns out to be substantial.

PPL trading at cheapest EV/EBITDAX and while MARI offers highest earnings growth
 Among its peers, PPL is currently trading at lowest EV/EBITDA multiple of 4.28x with lowest earning growth owing to one off retrospective amount received against difference arising from upward revision in gas price for Sui field. OGDC and POL are trading at EV/EBITDAX of 4.83x and 5.52x with 3Yr earnings CAGR of 11% and 12%, respectively. Whereas, MARI leads the 3YR earning CAGR of 36% among its peers with EV/EBITDAX of 6.43x.

Exhibit:
3Yr CAGR and P/E for E&P sector

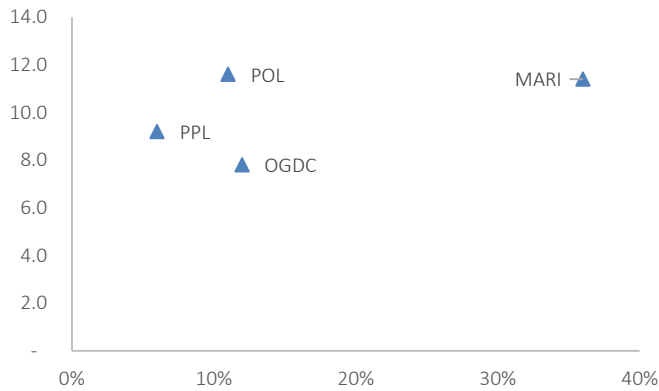
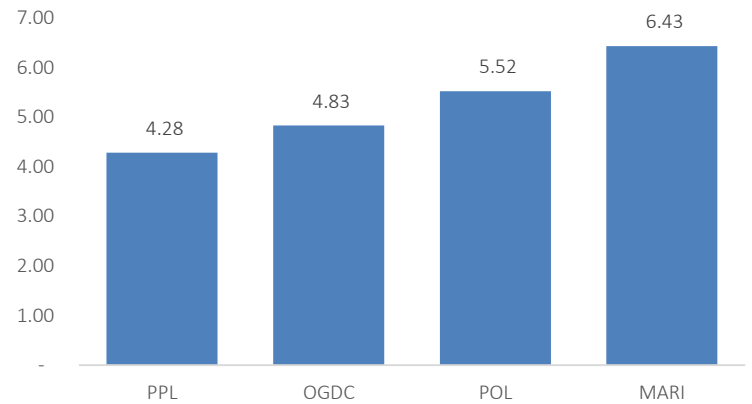


Exhibit:
PPL trades at lowest EV/EBITDAX among its peers



Source: IGI Research, Company Financials, Bloomberg, PSX

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