

Day Break

Monday, 13 August 2018

Sector Update

IGI E&P Universe

Recommendation

(PKR/share)	TP	Recom.	Upside	D/Y	P/E (x)
PPL	260.1	BUY	22.4%	7.1%	6.3
MARI	2,291.3	BUY	48.3%	0.4%	6.7
OGDC	200.3	BUY	31.3%	8.2%	5.5
POL	688.8	BUY	7.4%	9.7%	7.5

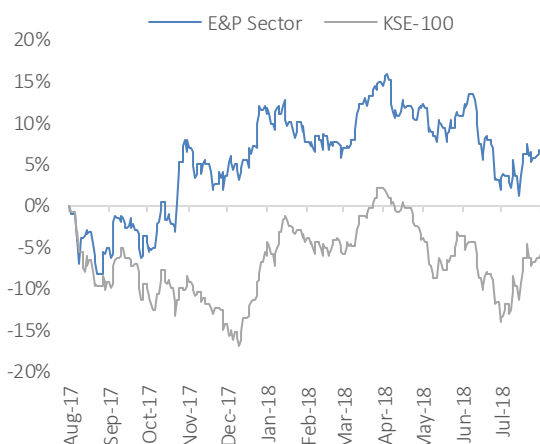
EPS estimate for 4QFY18

	4QFY18E	YoY	FY18E	YoY
PPL	5.5	-35%	22.3	23%
MARI	47.1	84%	144.9	75%
OGDC	4.7	24%	17.9	20%
POL	12.4	32%	45.6	11%

DPS estimate for 4QFY18

	4QFY18E	FY18E	FY17
PPL	7.0	11.0	9.0
MARI	2.5	6.0	5.2
OGDC	2.0	9.5	6.0
POL	25.5	43.0	40.0

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas Exploration Companies

E&P Sector Earnings to rise during 4QFY18 despite being marred by dry well costs

- IGI E&P universe earnings are expected to inch up by +1%YoY in 4QFY18 to PKR 38.9bn compared to PKR 38.4bn in the same period last year. Excluding retrospective impact recorded by PPL in respect of Sui field gas price revision, sector earnings are estimated to rise by +4%YoY,
- We expect Pakistan Petroleum Limited (PPL) to post earnings of PKR 10.74bn (EPS PKR 8.39) down by 33%YoY compared to PKR 4.07bn (EPS PKR 12.48) in the same period last year,
- We estimate Mari Petroleum Company Limited's (MARI) to register earnings growth of +84%YoY to PKR 5.19bn (EPS PKR 47.12) compared to PKR 2.83bn (EPS PKR 25.66) in the same period last year,
- We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 20.02bn (EPS PKR 4.65) up by +24%YoY compared to PKR 16.21bn (EPS PKR 3.77) in the same period last year.
- We expect Pakistan Oilfields Limited (POL) to report earnings of PKR 2.93bn (EPS PKR 12.36) up by +32%YoY compared to PKR 2.21bn (EPS PKR 9.35) in the same period last year.

E&P Sector: Earnings to inch up by +1%YoY to PKR 38.9bn in 4QFY18

IGI E&P universe earnings are expected to inch up by +1%YoY in 4QFY18 to PKR 38.9bn compared to PKR 38.4bn in the same period last year. Excluding retrospective impact recorded by PPL in respect of Sui field gas price revision, sector earnings are estimated to rise by +4%YoY. Earnings accretion is expected on the back of a) PKR devaluation resulting in higher oil and gas revenues, b) higher other income due PKR devaluation leading to exchange gains to PPL, OGDC and POL, c) oil prices up by +49%YoY during 4QFY18 and, d) rise in LNG production. Growth in earning is anticipated to be limited by higher dry well costs to be booked by PPL, OGDC and POL.

PPL: Earnings to augment excluding Sui one-off despite hefty dry well costs

We expect Pakistan Petroleum Limited (PPL) to post earnings of PKR 10.74bn (EPS PKR 5.45) down by 35%YoY compared to PKR 16.61bn (EPS PKR 8.42) in the same period last year. Excluding one off gas price adjustment in respect of Sui field of PKR 31.1bn, earnings are foreseen to rise by +7%YoY. We attribute the growth in the earnings to a) rise in oil price and, b) PKR depreciation against greenback leading to higher oil/gas revenues and exchange gains. However dry wells cost in Tolanj East, Ayub, Rajab and Nausherwani is expected to limited earnings growth during 4QFY18. This brings FY18 earnings to PKR 43.93bn (EPS PKR 22.28) up by +23%YoY. We forecast PPL to pay cash dividend of PKR 7.0/share, bringing total cash payout for FY18 to PKR 11.0/share. The Company may possibly announce a bonus issue of 10%-20% along with a dividend of PKR 2-3/share.

Exhibit:

PPL Financial Highlights

PKRmn	4QFY18E	4QFY17	YoY	FY18E	FY17	YoY
Net Sales	36,401	53,013	-31%	116,986	116,986	0%
Field Expenditure	16,769	13,253	27%	50,194	44,807	12%
Royalty	5,437	13,781	-61%	18,915	21,257	-11%
Gross Profit	14,195	25,979	-45%	59,114	50,922	16%
Other Income	2,663	1,372	94%	9,235	4,804	92%
PBT	15,702	21,520	-27%	63,649	48,129	32%
PAT	10,738	16,608	-35%	43,931	35,679	23%
EPS (PKR)	5.45	8.42	-35%	22.28	18.10	23%
DPS (PKR)	7.00	6.00		11.00	9.00	

Source: IGI Research and Company Financials

No of Shares: 1,972mn

MARI: Earnings to lift by +84%YoY to PKR 47.12/share in 4QFY18

Mari Petroleum Company Limited's (MARI) board meeting is scheduled on 30th Aug-18 to announce financial results for 4QFY18 where we estimate (MARI) to register earnings growth of +84%YoY to PKR 5.19bn (EPS PKR 47.12) compared to PKR 2.83bn (EPS PKR 25.66) in the same period last year. We attribute this substantial growth in the earnings to a) rise in oil prices and PKR depreciation leading to higher oil/gas revenues and, b) +7%YoY rise in gas production led by +7%YoY growth in gas flows from Mari field. We foresee MARI to report revenues from Mari Seismic Unit (MSU) on the back of completion of data acquisition from Bannu West in Apr-18. This brings FY18 earning to PKR 15.98bn (EPS PKR 144.93) up by +75%YoY. We forecast MARI to pay cash dividend of PKR 2.5/share, bringing total cash payout for FY18 to PKR 6.0/share.

Exhibit:

MARI Financial Highlights

PKRmn	4QFY18E	4QFY17	YoY	FY18E	FY17	QoQ
Net Sales	12,558	8,310	51%	41,150	28,175	46%
Royalty	1,593	1,056	51%	5,231	3,584	46%
Operating Expense	2,572	2,332	10%	9,560	7,450	28%
Exploration Expense	730	1,315	-45%	2,367	3,881	-39%
Gross Profit	7,227	3,418	111%	22,486	12,535	79%
Other Income	165	(387)	-143%	204	(820)	-125%
EBIT	7,392	3,031	144%	22,689	11,715	94%
Finance Income	166	65	157%	655	233	181%
Finance Cost	335	161	108%	1,121	798	41%
PBT	7,222	2,934	146%	22,223	11,149	99%
PAT	5,194	2,829	84%	15,979	9,136	75%
EPS (PKR)	47.12	25.66		144.93	82.87	
DPS (PKR)	2.50	2.20		6.00	5.20	

Source: IGI Research and Company Financials

No of Shares: 110.25mn

OGDC: Dry well cost to limited earnings growth in 4QFY18

We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 20.02bn (EPS PKR 4.65) up by +24%YoY compared to PKR 16.21bn (EPS PKR 3.77) in the same period last year. We attribute the growth in the earnings to +49%YoY rise in oil prices and PKR depreciation leading to higher oil/gas revenues and PKR devaluation resulting in exchange gains. However growth in earnings is estimated to be limited by dry well costs incurred at Tolanj East, Sheikhan Bhutta, Urs and Surqamar. This brings total FY18 earnings to PKR 76.84bn (EPS PKR 17.87) up by +20%YoY. We expect the company to announce cash dividend of PKR 2.0/share along with the result, bringing total cash payout for FY18 to PKR 11.5/share.

Exhibit:

OGDC Financial Highlights

PKRmn	4QFY18E	4QFY17	YoY	FY18E	FY17	YoY
Net Sales	61,560	45,200	36%	209,272	171,829	22%
Royalty	6,635	4,758	39%	22,277	18,519	20%
Operating Expenses	16,986	13,417	27%	61,227	56,585	8%
Gross Profit	37,016	26,605	39%	123,573	95,004	30%
Other Income	3,843	3,450	11%	15,103	16,020	-6%
Exploration and Prospecting	9,881	2,888	242%	21,065	13,269	59%
PBT	28,600	24,618	16%	108,765	89,137	22%
PAT	20,020	16,209	24%	76,841	63,803	20%
EPS (PKR)	4.65	3.77		17.87	14.83	
DPS (PKR)	2.00	2.00		11.50	6.00	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

POL: earnings to lift by +32%YoY in 4QFY18 to PKR 12.36/share

Pakistan Oilfields Limited's (POL) board meeting is schedule on 15th Aug-18 to announce financial results for 4QFY18 where we expect the Company to report earnings of PKR 2.93bn (EPS PKR 12.36) up by +32%YoY compared to PKR 2.21bn (EPS PKR 9.35) in the same period last year. We attribute the growth in the earnings to a) rise in oil prices by +49%YoY and PKR depreciation of 5% during Jun-18 leading to higher oil/gas revenues, b) exchange gains of PKR 0.43bn as a result of PKR depreciation and, c) +5%/+9%YoY rise in oil/gas production owing to commencement of production from Jhandial and Makori Deep. However dry well cost at Tolanj East and estimated costs incurred in FY18 on Surqamar will keep earnings growth limited during 4QFY18. To recall, POL booked dry well cost in respect of Surqamar during 4QFY17 when the well was last suspended. This bring total FY18 earnings to PKR 10.79bn (EPS PKR 45.63) up by +12%YoY. We expect the company to announce cash dividend of PKR 25.5/share along with the result, taking total cash payout for FY18 to PKR 43.0/share.

Exhibit:

POL Financial Highlights

PKRmn	4QFY18E	4QFY17	YoY	FY18E	FY17	YoY
Net Sales	9,872	6,865	44%	31,859	27,280	17%
Operating Costs	2,358	2,021	17%	8,877	8,384	6%
Royalty	1,535	602	155%	3,985	2,344	70%
Amortization of D&D Cost	796	241	231%	3,088	2,209	40%
Gross Profit	5,090	3,929	30%	15,586	14,072	11%
Exploration Costs	1,112	1,032	8%	2,127	1,468	45%
Finance Cost	586	162	263%	1,805	746	142%
Other Income	661	213	210%	2,967	1,473	101%
PBT	3,750	2,759	36%	13,539	12,412	9%
PAT	2,925	2,213	32%	10,793	9,679	12%
EPS (PKR)	12.36	9.35		45.63	40.92	
DPS (PKR)	25.50	25.00		43.00	40.00	

Source: IGI Research and Company Financials

No of Shares: 236.55mn

Recommendation

We maintain 'BUY' call on MARI/OGDC/PPL with our Dec-18 target price of PKR 2,291.3/share/ PKR 200.3share/ PKR 260.1/share offering +48%/+31%/+22% upside from last close. OGDC, PPL and MARI are trading at FY19 P/E of 5.5x, 6.3x and 6.7x, respectively.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views 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(s) 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.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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

Time Horizon: Dec – 2018

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

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, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. 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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Lahore Office

5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office

Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Stock Exchange Office

Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762