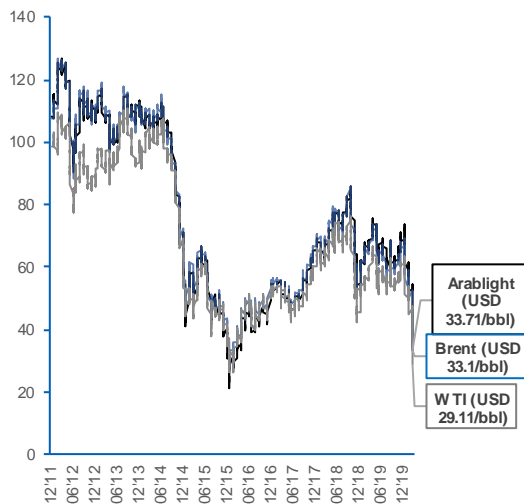


Sector Update

Company	TP	Upside	FY21F	FY22F
			P/E	P/E
OGDC	177	53%	5.1	5.2
PPL	169	51%	7.1	5.9
POL	457	24%	8.0	8.8
MARI	1,597	28%	6.4	6.1

Exhibit: International Oil prices - (USD/bbl)



Strategy

Oil price plunge as OPEC alliance falls-out; Pakistan macros to get a major boost

- ✓ Oil prices down by 30% reflecting break-up in OPEC alliance and global growth worries deepens with spread of coronavirus. This hold positive implications on Pakistan macro front; starting with further improvement in external balances and Headline inflation could start trending downwards, prompting earlier rate cuts
- ✓ From a market standpoint, we see Oil & Gas exploration companies' profitability likely to come under pressure, while early rate cuts can potentially reduce banking sector profitability. For rest of the market sector we remain neutral or positive, given the reduced cost benefits and lower interest costs.
- ✓ We have revised down our earnings estimates for OGDC, PPL, POL and MARI. Based on substantial decline in oil prices, we prefer MARI and PPL with our revised Dec-20 target prices of PKR 1,597/share and PKR 169 /share respectively offering +28% and +51% upside from last close. We have a "BUY" call on OGDC and POL with our Dec-20 target price of PKR 177/ share and PKR 457/share respectively.

Oil prices down by 30% reflecting break-up in OPEC alliance and global growth worries deepens with spread of coronavirus

Oil price – Arab Light – came down by nearly 29% to USD 33.7/bbl. after OPEC's press release 5th March, 2020. Since then oil prices have tumbled further touching a low of USD 29/bbl. by 9th March, 2020 as Saudi Arabia plan a big output hike of 1.2mnbpd taking its oil production to 11mnbpd or from 9-10% market share to ~11% by next month.

Positive implications on Pakistan macro front; starting with further improvement in external balances

This significant drop in oil price of nearly 30% during the month, holds positive implication for Pakistan economy whereby we expect further improvement in country's external balance as POL (including LNG) products accounts for nearly ~25% of the total import bill (in 2019). We estimate a USD 10/bbl. drop could result in import saving of USD 1.4bn annually or 0.5% of the GDP. Having said that a key risk in form slowdown in global growth could potentially hurt country's export market and remittances. Saudi Arabia, UAE and other Gulf countries combined accounts for 60% of the total remittances inflow and constitute nearly 7% of Pakistan export market.

Headline inflation could start trending downwards, prompting earlier rate cuts

Nevertheless, on domestic front given oil prices remain depressed for the remainder of the year 2020 a full pass-over impact (which in our view is unlikely given the fiscal implications) could shave off nearly 0.3% m/m from Mar-20 inflation and further diluting impact of high seasonal demand pull inflation during Ramadan. More importantly, we could potentially see earlier rate cuts by about 100-150bps than initially envisaged. However, we view the central bank will

Source: Bloomberg, KSE 100 & IGI Research

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

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

Exhibit: OPEC Production

000'bopd				
Member	01/20	2019	2018	2017
Algeria	1,012	1,022	1,042	1,044
Angola	1,374	1,401	1,505	1,640
Ecuador	537	528	519	531
Congo	293	326	317	-
Gabon	196	208	187	200
Eq. Guinea	124	117	125	135
Iran	2,086	2,357	3,553	3,811
Iraq	4,501	4,680	4,550	4,445
Kuwait	2,665	2,687	2,745	2,708
Libya	796	1,097	951	817
Nigeria	1,776	1,786	1,718	1,663
Qatar	-	-	-	606
Saudi Arabia	9,733	9,771	10,311	9,950
U.A.E	3,034	3,077	2,986	2,916
Venezuela	733	793	1,354	1,927
Total	28,859	29,851	31,864	32,393
Non-OPEC		-600	-600	-600
Russia		-300	-300	-300

Source: OPEC, IGI Research

adopt a cautious 'wait-and-see' approach as the story develops and offer a conservative cut of 50bps in upcoming monetary policy statement due in Mar-20.

OPEC 178th Vienna meeting ended on a deadlock between OPEC and OPEC+ alliance bringing an end to 3-year alliance

Organization of the Petroleum Exporting Countries (OPEC) held its 178th meeting on 05-06th Mar-20 in Vienna (Austria) which concluded with a deadlock between mutual agreement between OPEC and OPEC+ members which lasted 3 years. The collapse in OPEC and OPEC+ agreement comes in an attempt for Saudi Arabia and Russia to regain market share. OPEC led by Saudi Arabia proposed extending production cuts by a further 1.5mnbpd (1.0mnbpd for OPEC and 0.5mnbpd for Non-OPEC) for a further 9 months till Dec-20 in addition to existing cuts of 2.1mnbpd. From 1st-Apr-20, neither OPEC nor Non-OPEC members will not have any production limits. Thus a total of nearly 2.1mnbpd of supply could enter the market. Furthermore, Saudi Aramco has also slashed its oil price for Apr-20 by USD 4-6/bbl for sales to Asia while cutting its oil price by USD 7/bbl for U.S.

Oil Price (Arab Light) came down by nearly 7% to USD 47.61/bbl. after OPECs press release however as of 9th-Mar-20 WTI has dropped by 37% to USD 29.11/bbl. (low of USD 27.34/bbl.). Arab Light further dropped by 29% today to USD 33.71/bbl. as Saudis plan big output hike of nearly 1.2mnbpd by next month in an all-out price war to regain market share. Saudi Arabia is likely to increase its oil production to nearly 11mnbpd which was down to 9.6-9.7mnbpd in Dec-19.

Our long-term oil price assumption revised down to USD 40/bbl.

Based on outcome of OPEC 2020 meeting in Vienna and impact on demand post COVID-19, we expect oil price (benchmark Arab Light) to remain range bound between USD 35-40/bbl. and average USD 55/bbl. for FY20. Thus we revise down our oil price assumption for FY20 to USD 55/bbl. from USD 65/bbl. and there onwards change our long term price assumption at USD 40/bbl. from previous USD 50/bbl. from FY23 onwards. We also revise down our oil price assumption for FY21 and FY22 to USD 40/bbl. from previous USD 60/bbl. and USD 55/bbl. respectively.

Awaiting clarity on how long the price wars last and impact of COVID-19

The primary reason behind collapse of OPEC and Non-OPEC agreement leading to price war was Russia discomfort with additional production cuts and fear of losing market share to US shale producers. As a result, to create a chaos and crash oil prices, Saudi Arabia resorted to increasing output and reducing price substantially to squeeze margins of Russian and other oil producers. This would in turn push prices down below Russia and other producers comfort level and bring them back to the negotiating table. We await response from big oil producers including Russia and US in this regard to end the price war. Furthermore, we await clarity on the extent of impact of COVID-19 on global demand. Thus for now we lower our oil price assumption and expect price to rebound slightly however remain range bound between USD 35-40/bbl. for Arab Light.

As uncertainty looms over, oil prices remain highly unpredictable

Although Saudi Arabia has initiated a price war by ending OPEC and Non-OPEC alliance, the outlook for oil prices remain highly unpredictable despite a 30% drop

in oil price within a day. Depending on response from Russia and other oil producers, oil prices could either fall below USD 30/bbl (Arab Light) or rebound to USD 50/bbl and above. Thus we highlight E&P stocks to remain volatile.

Having said that, even at worst case scenario if oil prices fall to USD 25/bbl, we expect target prices of OGDC, PPL, POL and MARI to fall to PKR 152/share, PKR 138/share, PKR 384/share and PKR 1,338/share respectively still implying an upside of 31%, 24%, 4% and 7% from current levels. At USD 25/bbl oil price, earnings for OGDC, PPL, POL and MARI are likely to drop and stand at FY21 P/E of 6.4, 10.4, 12.2 and 8.4 respectively compared to Market P/E of 6.3. However, high receivable hurting cash position and lower oil price are likely to impact drilling activity which would further increase the discount of E&P sector P/E to market.

E&P sector could potentially come under pressure; Cements and Steel likely to rally

From a market standpoint, we see Oil & Gas exploration companies' profitability likely to come under pressure, while early rate cuts can potentially reduce banking sector profitability. For rest of the market sector we remain neutral or positive, given the reduced cost benefits and lower interest costs.

Exhibit: Sector impact owing to reduce oil prices		
Sector	Impact	Analyst Comments
Oil & Gas Exploration Companies	Negative	Reduce oil prices simply implies reduce profitability for the sector.
Oil & Gas Marketing Companies	Neutral - Positive	For OMCs' we expect a short-term negative impact due to inventory losses. If oil prices sustain current low levels, we could see a) pick-up in WOP volumes but could also lead to subdued quantum increase in OMC margin, due to linking of OMC margin with CPI.
Refineries	Neutral	As a result of decline in oil prices we believe, refineries might book in one-time inventory losses. Furthermore, local refineries would have to cut their margins once prices drop as imported POL products would be cheaper due to lower international refinery margins and inefficiency costs further denting the margins.
Power	Neutral - Positive	The impact of decline in oil prices would be neutral on profitability of power companies, as fuel cost is passed over to the consumer in power tariff. However, lower oil prices would lead to reduction in the quantum of circular debt and increase recoveries resulting in better cash flows.
Cements	Positive	Cement sector would also be one of the major beneficiaries of decline in international oil prices, as fuel costs consists of 15-20% of the total cost. More so, anticipating a rate cut, highly leveraged companies would also benefit significantly.
Chemicals	Neutral - Positive	We believe, chemical (EPCL) industry could also stand out a potentially beneficiary via lower raw material cost resulting in higher margin.
Commercial Banks	Neutral - Negative	Although we have already incorporated a 200bps rate in 2020 by Sep-20 onwards, however anticipating an earlier rate cut will dent sector NIMs.
Steel	Positive	More or less like Cements, Steel sector would also stand as beneficiary of decline in international oil prices, a) due to fuel cost saving, b) anticipating a rate cut, and c) lower steel prices amid slower global growth outlook.
Textile	Neutral	With government putting a freeze on gas price hike (till Jun, 2020) interest rate cuts could potentially act as an earnings catalyst, while global growth outlook can act as a sales dampener
Fertiliser	Neutral - Negative	Resumption of stalled plants could start production given reduced RLNG prices, creating inventory glut dictating pressure on prices

Earnings estimates revised down for OGDC, PPL, POL and MARI

As a result of revision in our short term and long term oil price assumption, we revise down our earnings estimates for Oil & Gas Company Limited (OGDC), Pakistan Petroleum Limited (PPL), Pakistan Oilfield Limited (POL) and Mari Petroleum Company Limited (MARI). For OGDC we revise down our earnings for FY20-24 by on average 8-19%, PPL by 15-29%, POL by 13-30% and MARI by 8-19%. Thus are target prices are revised down by 10%, 13%, 12% and 10% for OGDC, PPL, POL and MARI to PKR 177.08/share, PKR 168.97/share, PKR 456.8/share and PKR 1,597.07/share respectively. We prefer MARI and PPL on the basis of lower oil contribution to revenue compared to OGDC and POL.

Exhibit: Earnings and target prices revised for E&P companies

PKR/share	FY20		FY21		FY22		Target Price	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised
OGDC	27.51	25.25	27.65	22.52	25.80	22.33	195.88	177.08
PPL	20.31	17.20	22.06	15.72	24.36	19.06	194.63	168.97
POL	64.69	56.60	65.34	45.70	56.82	42.00	518.64	456.80
MARI	230.55	212.04	242.55	195.65	242.13	204.41	1,774.38	1,597.07

Source: IGI Research

MARI and PPL to stand as least effected

For local Exploration and Production industry, we believe MARI and PPL to stand least effected among E&P companies amid substantial decline in oil price considering MARI/PPL has nearly ~5%/31% oil contribution in its total revenue, compared to 40%/51% for OGDC/POL. Higher contribution of gas revenue for MARI and PPL would allow cushion against short term volatility in oil prices due to floor price mechanism and determination of prices on 6-months’ basis.

Exhibit: Oil prices post highest loses in CY20TD in last 6 years

Oil prices witnesses steepest drop in last few years amid fears of COVID-19 and OPEC price war

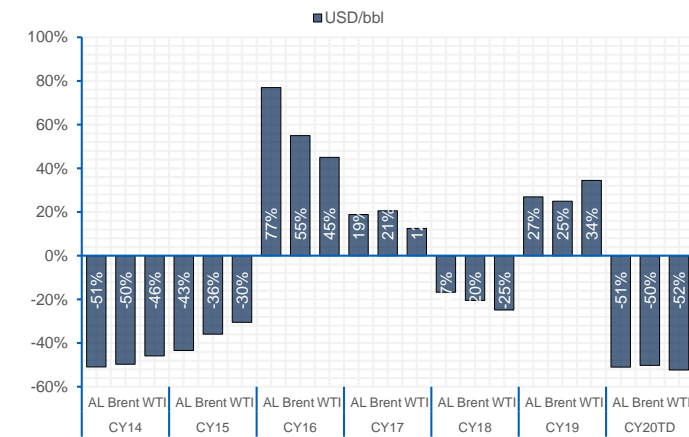
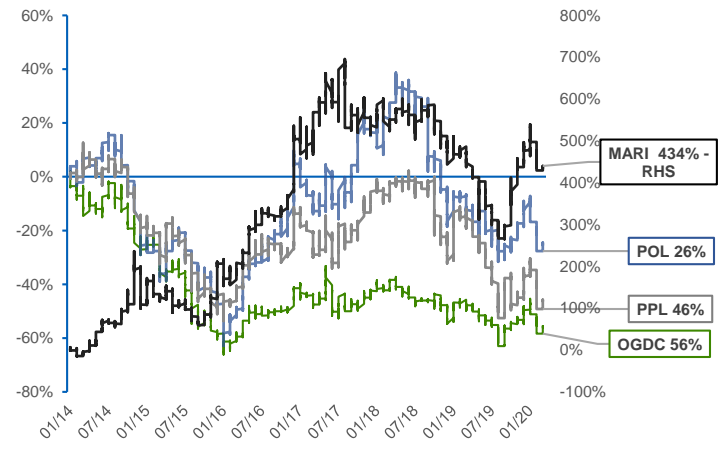


Exhibit: Relative Price Performance IGI E&P Universe

Despite volatile oil prices MARI leads with a positive aggregate return of 434% since 2014



Recommendation

Based on substantial decline in oil prices, we prefer MARI and PPL with our revised Dec-20 target prices of PKR 1,597/share and PKR 169/share respectively offering +28% and +51% upside from last close. We have a “BUY” call on OGDC and POL with our Dec-20 target price of PKR 177/ share and PKR 457/share respectively. POL remains highly effected due to higher oil revenue contribution of 51% which translates immediately in to revenues.

Earning and Target price Sensitivity to Oil Price

Pakistan Oilfields Limited (POL)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec20
	FY20	FY21	FY22	FY20	FY21	FY22	
Bear 1	40.0	25.0	25.0	44.2	30.1	26.9	383.8
Base 2	45.0	30.0	30.0	48.4	35.5	32.1	408.8
Bear 3	50.0	35.0	35.0	52.5	41.0	37.4	434.6
Base	55.0	40.0	40.0	56.6	45.7	42.0	456.8
Bull 1	60.0	45.0	45.0	60.6	50.2	46.4	478.0
Bull 2	65.0	50.0	50.0	64.7	54.7	50.7	499.0
Bull 3	70.0	55.0	55.0	68.7	59.0	55.0	519.4
Bull 4	75.0	60.0	60.0	72.7	63.4	59.2	539.4

Pakistan Petroleum Limited (PPL)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec20
	FY20	FY21	FY22	FY20	FY21	FY22	
Bear 1	40.0	25.0	25.0	12.0	10.8	13.6	138.2
Base 2	45.0	30.0	30.0	13.8	12.1	15.1	146.5
Bear 3	50.0	35.0	35.0	15.6	13.9	17.1	158.0
Base	55.0	40.0	40.0	17.2	15.7	19.1	169.0
Bull 1	60.0	45.0	45.0	18.8	17.4	20.9	179.5
Bull 2	65.0	50.0	50.0	20.3	19.1	22.8	190.0
Bull 3	70.0	55.0	55.0	21.9	20.6	24.4	198.9
Bull 4	75.0	60.0	60.0	23.2	22.1	25.9	207.7

Oil & Gas Development Company Limited (OGDC)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec20
	FY20	FY21	FY22	FY20	FY21	FY22	
Bear 1	40.0	25.0	25.0	21.8	18.2	18.0	151.9
Base 2	45.0	30.0	30.0	23.0	19.6	19.4	160.1
Bear 3	50.0	35.0	35.0	24.1	21.2	21.0	169.1
Base	55.0	40.0	40.0	25.3	22.5	22.3	177.1
Bull 1	60.0	45.0	45.0	26.4	23.8	23.6	184.8
Bull 2	65.0	50.0	50.0	27.5	25.2	24.9	192.5
Bull 3	70.0	55.0	55.0	28.6	26.4	26.2	199.8
Bull 4	75.0	60.0	60.0	29.8	27.7	27.4	207.2

Mari Petroleum Company Limited (MARI)							
Scenarios	Oil Assumption (USD/bbl.)			EPS (PKR)			Target Price (PKR) - Dec20
	FY20	FY21	FY22	FY20	FY21	FY22	
Bear 1	40.0	25.0	25.0	180.1	149.1	156.2	1,338.0
Base 2	45.0	30.0	30.0	191.4	169.0	176.8	1,442.7
Bear 3	50.0	35.0	35.0	202.8	182.6	190.8	1,521.9
Base	55.0	40.0	40.0	212.0	195.6	204.4	1,597.1
Bull 1	60.0	45.0	45.0	221.3	208.6	217.9	1,671.8
Bull 2	65.0	50.0	50.0	230.5	221.6	231.3	1,746.6
Bull 3	70.0	55.0	55.0	239.8	232.1	242.1	1,811.2
Bull 4	75.0	60.0	60.0	248.0	242.6	252.9	1,874.8

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. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. 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)

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.

IGI Finex Securities Limited
Research Analyst(s)
 Research Identity Number: BRP009
 © Copyright 2018 IGI Finex Securities Limited


Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

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
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@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) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Zaid Farook	Branch Manager – Karachi, PSX	Tel: (+92 21) 32462651-52	zaid.farook@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
Mahtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@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

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

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

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

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2019 IGI Finex Securities Limited



Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>