

Day Break

Tuesday, 22 January 2019

Sector Update

IGI E&P Universe

Recommendation

(PKR/share)	TP	Recom.	Upside	D/Y	P/E (x)
PPL	229.6	BUY	25.7%	5.5%	7.2
MARI	1,920.5	BUY	44.6%	0.5%	6.8
OGDC	188.8	BUY	27.7%	7.4%	6.4
POL	567.3	BUY	18.8%	12.6%	7.7

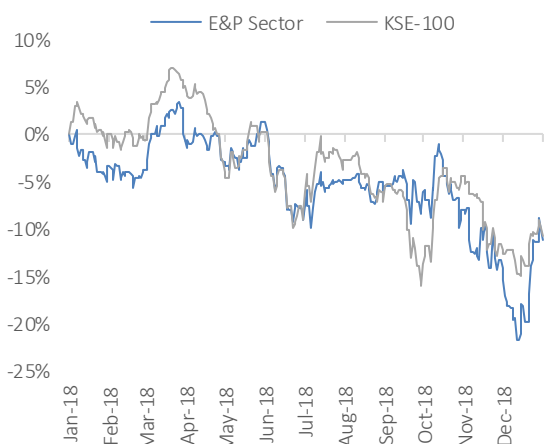
EPS estimate for 2QFY19

	2QFY19E	YoY	1HFY19E	YoY
PPL	7.0	69%	13.2	36%
MARI	47.1	78%	89.5	59%
OGDC	6.3	37%	12.5	46%
POL	16.1	105%	29.7	77%

DPS estimate for 2QFY19

	2QFY19E	1HFY19E	1HFY18
PPL	5.3	5.3	4.0
MARI	3.5	3.5	3.5
OGDC	3.0	5.8	4.8
POL	30.0	30.0	17.5

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

E&P Sector Earnings to remain upbeat amid PKR depreciation and no dry well cost

- IGI E&P universe earnings are expected to augment by +54.1%YoY in 2QFY19 to PKR 53.1bn compared to PKR 34.4bn in the same period last year. On sequential basis, earnings growth is expected to be limited by 10%QoQ drop in oil prices
- We expect Pakistan Oilfields Limited's (POL) to report earnings of PKR 4.57bn (EPS: PKR 16.08) up by +105%YoY compared to PKR 2.23mn (EPS: PKR 7.85) in the same period last year
- We estimate Pakistan Petroleum Limited (PPL) to post earnings of PKR 15.82bn (EPS: PKR 6.98) up by +69%YoY compared to PKR 9.35bn (EPS: PKR 4.12) in the same period last year
- We forecast Mari Petroleum Company Limited's (MARI) to register earnings growth of +78%YoY to PKR 5.71bn (EPS PKR 47.08) during 2QFY19 compared to PKR 3.20bn (EPS PKR 26.41) in the same period last year
- We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 26.98bn (EPS: PKR 6.27) up by +37%YoY compared to PKR 19.66bn (EPS: PKR 4.57) in the same period last year.

E&P Sector: Earnings to surge up by +54%YoY to PKR 53.1bn in 3QFY18

IGI E&P universe earnings are expected to augment by +54.1%YoY in 2QFY19 to PKR 53.1bn compared to PKR 34.4bn in the same period last year. Earnings accretion is expected on the back of a) PKR devaluation resulting in higher oil and gas revenues, b) higher other income due to PKR devaluation leading to exchange gains for PPL, OGDC and POL, c) +15%YoY rise in oil prices and, d) no dry well cost incurred during the quarter. On sequential basis, earnings growth is expected to be limited by 10%QoQ drop in oil prices.

POL: Earnings to lift by +105%YoY in 2QFY19E to PKR 16.08/share

Pakistan Oilfields Limited's (POL) board meeting is schedule on 22nd Jan-19 to announce financial results for 2QFY19 where we expect the Company to report earnings of PKR 4.57bn (EPS: PKR 16.08) up by +105%YoY compared to PKR 2.23mn (EPS: PKR 7.85) in the same period last year. We attribute the growth in the earnings to a) rise in oil prices by +15%YoY and PKR depreciation leading to higher oil/gas revenues, b) exchange gains as a result of PKR depreciation and, c) one off reversal of PKR 3bn relating to 3 fields in Tal block post imposition of windfall on oil in Dec-17. However due to absence of dry well cost exploration costs are expected to remain on the lower side. This bring total 1HFY19E earnings to PKR 8.43bn (EPS: PKR 29.71) up by +77%YoY. We expect the company to announce cash dividend of PKR 30.0/share along with the result.

Exhibit:

POL Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	12,028	6,000	100%	22,599	13,240	71%
Operating Costs	2,722	2,155	26%	5,501	4,129	33%
Gross Profit	6,894	2,361	192%	12,750	6,384	100%
Exploration Costs	561	468	20%	1,292	740	74%
Other Income	876	1,316	-33%	1,717	1,565	10%
PBT	6,340	2,522	151%	11,475	6,050	90%
PAT	4,565	2,227	105%	8,432	4,761	77%
EPS (PKR)	16.08	7.85		29.71	16.77	
DPS (PKR)	30.00	17.50		30.00	17.50	

Source: IGI Research and Company Financials

No of Shares: 283.86mn

PPL: Earnings to augment in the absence of dry well cost and PKR depreciation

We estimate Pakistan Petroleum Limited (PPL) to post earnings of PKR 15.82bn (EPS: PKR 6.98) up by +69%YoY compared to PKR 9.35bn (EPS: PKR 4.12) in the same period last year. We attribute the growth in the earnings to a) lower exploration amid no dry well cost incurred and, b) PKR depreciation against greenback leading to higher oil/gas revenues and exchange gains. This brings 1HFY19E earnings to PKR 30.01bn (EPS: PKR 13.24) up by +36%YoY. We expect the company to announce a cash dividend of PKR 5.25/share along with the result.

Exhibit:

PPL Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	41,542	28,762	44%	79,759	60,974	31%
Field Expenditure	13,190	12,934	2%	25,994	21,124	23%
Royalty	6,187	4,072	52%	11,824	8,962	32%
Gross Profit	22,165	11,756	89%	41,941	30,887	36%
Other Income	1,864	3,305	-44%	3,849	4,483	-14%
PBT	21,975	14,175	55%	41,502	32,838	26%
PAT	15,822	9,345	69%	30,011	22,024	36%
EPS (PKR)	6.98	4.12	69%	13.24	9.71	36%
DPS (PKR)	5.25	4.00		5.25	4.00	

Source: IGI Research and Company Financials

No of Shares: 2,267.49mn

MARI: Earnings to lift by +78%YoY to PKR 47.08/share in 2QFY19

We forecast Mari Petroleum Company Limited's (MARI) to register earnings growth of +78%YoY to PKR 5.71bn (EPS: PKR 47.08) during 2QFY19 compared to PKR 3.20bn (EPS: PKR 26.41) in the same period last year. We attribute this substantial growth in the earnings to a) PKR depreciation leading to higher oil/gas revenues and, b) higher gas price for Mari field under the new mechanism where discount to wellhead gas price shrinks every 6 months. Furthermore, in the absence of dry well cost we anticipate exploration cost to remain on the lower side. This brings 1HFY19E earning to PKR 10.85bn (EPS: PKR 89.48) up by +59%YoY. We forecast MARI to pay cash dividend of PKR 3.5/share along with the result.

Exhibit:

MARI Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	14,335	8,682	65%	28,676	18,017	59%
Royalty	1,827	1,101	66%	3,655	2,288	60%
Operating Expense	2,986	2,730	9%	5,754	4,662	23%
Exploration Costs	1,091	1,110	-2%	2,767	1,356	104%
Gross Profit	7,885	3,424	130%	15,368	9,051	70%
EBIT	7,911	4,091	93%	15,632	9,359	67%
PBT	7,860	3,963	98%	15,562	9,054	72%
PAT	5,709	3,202	78%	10,851	6,815	59%
EPS (PKR)	47.08	26.41		89.48	56.20	
DPS (PKR)	3.50	3.50		3.50	3.50	

Source: IGI Research and Company Financials

No of Shares: 121.28mn

OGDC: Absence of dry well and PKR depreciation to lift 2QFY19 EPS by +37%YoY to PKR 6.27

We expect Oil & Gas Development Company Limited (OGDC) to post earnings of PKR 26.98bn (EPS: PKR 6.27) up by +37%YoY compared to PKR 19.66bn (EPS: PKR 4.57) in the same period last year. We attribute the growth in the earnings to a) +15%YoY rise in oil prices, b) absence of dry well cost and, c) PKR depreciation leading to higher oil/gas revenues and exchange gains. This bring total 1HFY19E earnings to PKR 53.71bn (EPS: PKR 12.49) up by +46%YoY. We expect the company to announce cash dividend of PKR 3.0/share along with the result, bringing total cash payout for 1HFY19E to PKR 5.75/share.

Exhibit:

OGDC Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	65,237	51,998	25%	127,036	95,960	32%
Royalty	7,259	5,530	31%	14,135	9,962	42%
Operating Expenses	16,710	14,325	17%	31,572	28,280	12%
Gross Profit	40,289	31,723	27%	79,967	56,883	41%
Other Income	4,251	3,556	20%	8,349	6,667	25%
Exploration and Prospecting	2,123	5,841	-64%	4,084	7,365	-45%
PBT	39,670	27,640	44%	79,033	52,029	52%
PAT	26,975	19,662	37%	53,710	36,672	46%
EPS (PKR)	6.27	4.57		12.49	8.53	
DPS (PKR)	3.00	3.00		5.75	4.75	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

Recommendation

We maintain **'BUY'** call on MARI/ PPL as our top picks with our Dec-19 target prices of PKR 1,920.5/share/ PKR 229.6/share offering +45%/+26% upside from last close. MARI and PPL are trading at FY19 P/E of 6.8x and 7.2x, respectively. We maintain our liking for PPL despite recent price run due to higher exposure in well currently under drilling with any discovery would further enhance Company's reserve base. We also have a **'BUY'** stance on OGDC with our Dec-19 target price of PKR 188.8/share offering +28% upside from last close.

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Time Horizon: Dec – 2019

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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