

**PAKISTAN**



# Pakistan Oil and Gas

## Profitability continues to recover on sequential basis as oil prices moves higher

### Event

▪ We expect E&P sector profitability to increase on sequential basis during 4QFY21 primarily because of higher oil prices and exchange gains due to strengthening of dollar. Subsequently, sector’s FY21 profitability decline would reduce to 4% YoY. We expect profitability of POL to recover the most followed by OGDC during 4QFY21.

### Impact

▪ **Oil prices on path of continuous recovery:** Oil prices recovered for the eight consecutive month in Jun’21 on continuous supportive oil market fundamentals. Arab Light averaged ~US\$68/bbl in 4QFY21, up ~12.4% QoQ, due to uptick in global economic activity amid a restrained global oil supply.

▪ **Oil and gas production maintained level on sequential basis:** Oil and gas production struggled to recover to pre-Covid levels despite economic activity touching pre-Covid levels due to continuous disruptions in energy supply chain, in our view. As per the PPIS numbers, oil production of our E&P space is down by 2% QoQ primarily because of decline in production from TAL Block (12% QoQ), Naspha (5% QoQ) and Adhi Field (2% QoQ). While production from KPD field is increased by 14% QoQ. FSL E&P universe gas flows improved by a mere ~1% QoQ given substantially higher flows from Uch (10% QoQ) and Mari (3% QoQ) despite drop of production from TAL Block (5% QoQ), KPD (6% QoQ), kandhkot (5% QoQ) and Sui (2% QoQ). In line with oil production LPG production is down by 9% QoQ in 4QFY21 primarily because of lower production from Adhi (32% QoQ) and TAL Block (5% QoQ) fields. While production from Nashpa and KPD is up by 5% QoQ and 1.1% QoQ, respectively.

▪ **POL to recover the most on sequential basis:** We expect POL 4QFY21 profitability to clock in at Rs13.3, up by 32% QoQ, given elevated oil prices. This takes FY21 profitability to Rs46.7, down 19% YoY. POL production is down across the board mainly because of TAL Block. Result is likely to accompanied with cash payout of Rs20/sh.

▪ **OGDC to show significant improvement as well:** We foresee OGDC to post an EPS of Rs6.6, up 17% QoQ, in 4QFY21 mainly due to higher oil prices amid stagnant production. This would take full year profitability to Rs18.6/sh, down 5% YoY. We expect OGDC to announce dividend of Rs2/sh.

▪ **Oil and LPG Production decline to restrict PPL’s recovery:** We expect PPL to post an EPS of Rs4.5, up by 4% QoQ, in 4QFY21 given higher oil prices. Company’s oil and LPG production is down by 3% QoQ and 15% QoQ while gas flows is expected to remain constant on QoQ. This would take full year profitability to Rs18.6/sh.

▪ **MARI to post a minor drop on sequential basis:** We foresee MARI to post an EPS of Rs50.3, down 3% QoQ, given higher exploration cost despite slightly better flows on incremental pricing. This takes full year profitability to clock in at Rs222.4/sh, down by 1% YoY. We expect company to pay cash dividend of Rs30/sh.

### Outlook

▪ We have an “Outperform” stance on the sector given recovery in oil prices amid resolution of circular debt. Lower operating cost, debt free balance sheet and improved security situation further strengthens our conviction.

**FSL E&P Universe 4QFY21 Profitability Review**

	4QFY21	4QFY20	YoY	QoQ
OGDC	6.6	3.9	67%	17%
PPL	4.5	4.1	12%	4%
POL	13.3	8.6	55%	32%
MARI	50.3	53.1	-5%	-3%

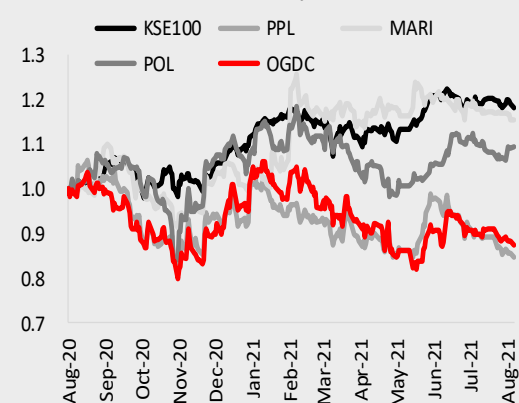
	FY21	FY20	YoY
OGDC	22.0	23.3	-5%
PPL	18.6	18.5	0%
POL	46.7	57.7	-19%
MARI	225.4	227.2	-1%

**Dividend Expectations (Rs/sh)**

OGDC	2.0
PPL	2.0
POL	20.0
MARI	30.0

Source: Company accounts, Foundation Research, August 2021

**Historical Performance of E&P Companies**



Source: Bloomberg, Foundation Research, August 2021

**Analyst**

Muhammad Awais Ashraf, CFA m.awais@fs.com.pk

+92 21 35612290

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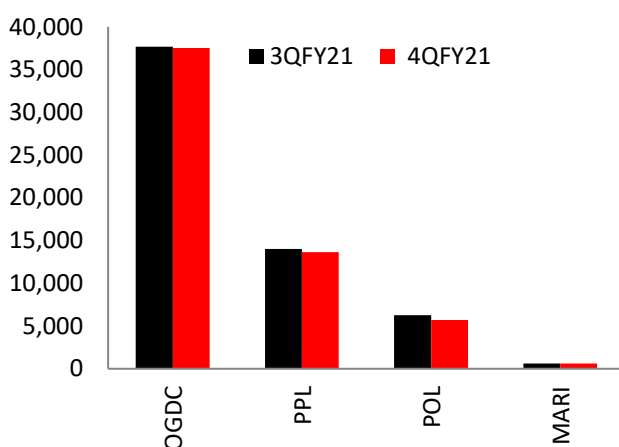
Foundation Securities (Pvt) Ltd

Wednesday, August 11, 2021

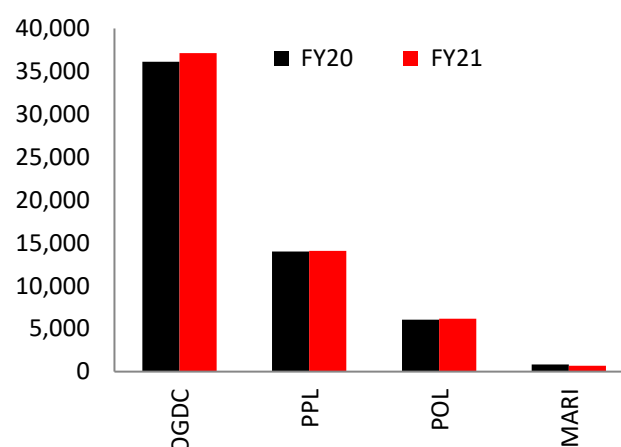
**Table 1: E&P profitability (Rs mn)**

	4QFY21	4QFY20	YoY	3QFY20	QoQ	FY21	FY20	YoY
Sales	129,656	105,296	23%	127,685	2%	504,392	512,939	-2%
Operating cost	34,821	37,856	-8%	36,099	-4%	143,612	142,722	1%
Royalty	16,802	12,832	31%	15,590	8%	63,483	64,241	-1%
EBITDA	89,548	68,523	31%	87,591	2%	345,084	359,466	-4%
Exploration Cost	9,460	10,455	-10%	7,076	34%	28,041	44,610	-37%
EBIT	69,259	44,880	54%	69,474	0%	271,397	264,415	3%
Other Income	10,170	7,716	32%	3,698	175%	22,975	39,176	-41%
Other Charges	3,785	2,622	44%	6,587	-43%	19,931	19,749	1%
Finance cost	2,058	1,729	19%	710	190%	4,842	7,279	-33%
Pre-tax profit	73,586	48,245	53%	65,875	12%	269,599	276,563	-3%
Taxation	22,504	10,816	108%	20,067	12%	81,113	79,537	2%
Profit after tax	51,082	37,429	36%	45,808	12%	188,486	197,026	-4%

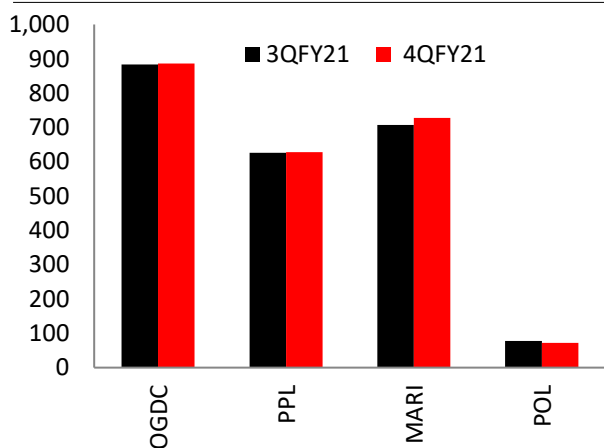
Source: Company Reports, Foundation Research, August 2021

**Fig 1: Oil production slightly drop in 4QFY21 (bpd)**

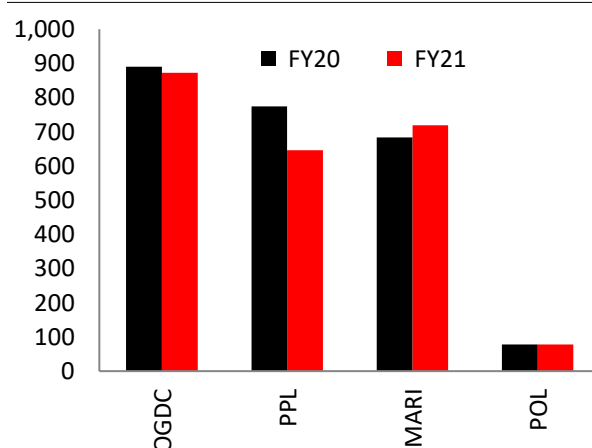
Source: PPIS, Foundation Research, August 2021

**Fig 2: ... while slightly recover in FY21 (bpd)**

Source: PPIS, Foundation Research, August 2021

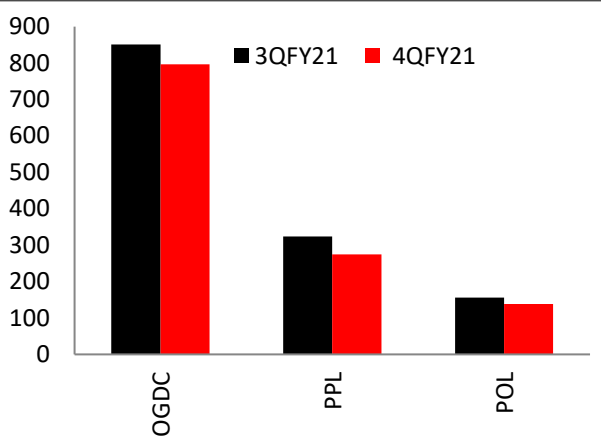
**Fig 3: Gas flows up on QoQ basis during 4Q (mmcf)**

Source: PPIS, Foundation Research, August 2021

**Fig 4: ...while decline during FY21 (mmcf)**

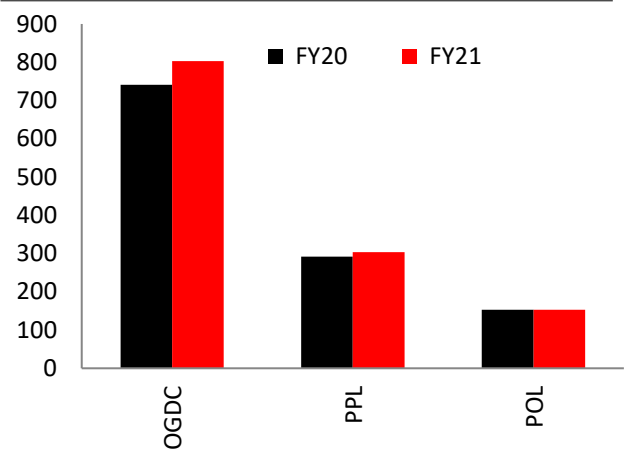
Source: PPIS, Foundation Research, August 2021

**Fig 5: Lower TAL production to hit LPG supply (tpd)**



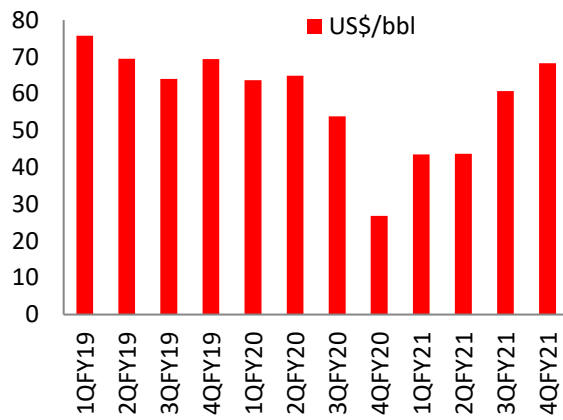
Source: PPIS, Foundation Research, August 2021

**Fig 6: LPG production increased in FY21 (tpd)**



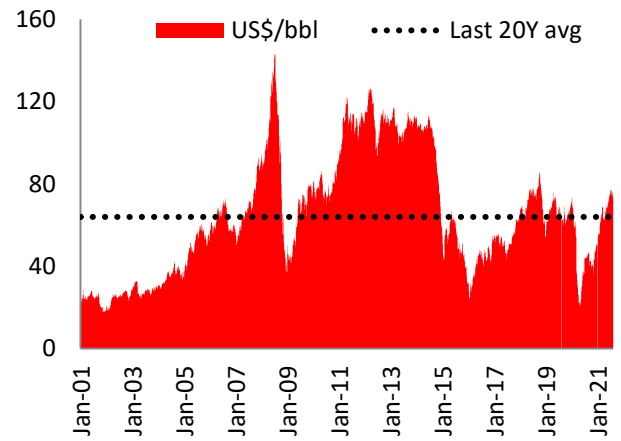
Source: PPIS, Foundation Research, August 2021

**Fig 7: AL prices continue to recover in 4QFY21**



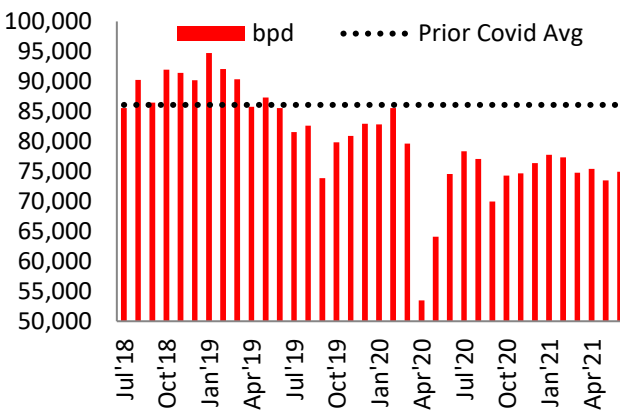
Source: Bloomberg, FSL Research, August 2021

**Fig 8: ...AL trading above last 20Y average**



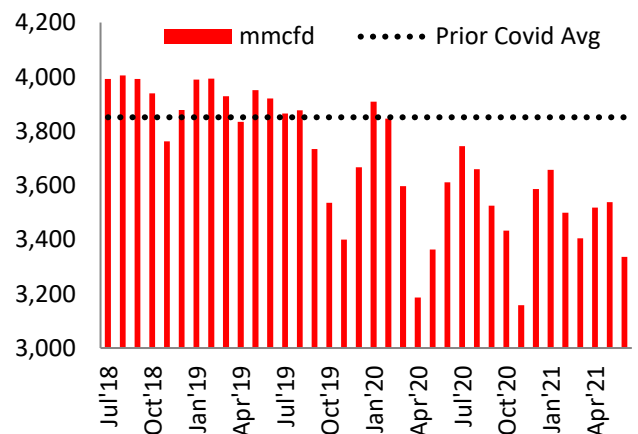
Source: Bloomberg, FSL Research, August 2021

**Fig 9: Oil production way below Pre Covid level...**



Source: PPIS, Foundation Research, August 2021

**Fig 10: ...gas production still facing problems**



Source: PPIS, Foundation Research, August 2021

**Abbreviations**

Bbl	barrels	LPG	Liquefied Petroleum Gas
Bpd	barrels per day	LT	Long term
DPS	Dividend Per Share	mmcfd	million cubic feet per day
DY	Dividend Yield	NU	Neutral
E&P	Exploration and Production	O-pr	Outperform.
EBIT	Earnings before interest and Tax	PAT	Profit after tax
EBITDA	Earnings before interest, tax, depreciation and Amortization	PBT	Profit before tax
EPS	Earnings per share	PBV	Price to Book value
EV/EBITDA	Enterprise Value per earnings before interest, tax, depreciation and Amortization	PE	Price to earnings
FY	Fiscal Year	PP&E	Plant Property and Equipment
GP	Gross profit	PPIS	Pakistan Petroleum Information Service
K	Thousand	ROA	Return on Asset
L+E	Liabilities plus equity	ROE	Return on Equity
LNG	Liquefied Natural Gas	TP	Target Price
		TPD	Tons per day

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.