PAKISTAN

E&P Space profitability

	4QFY22	4QFY21	YoY	QoQ
OGDC	5.2	5.8	-10%	-48%
PPL	5.4	5.5	-1%	-29%
POL	16.4	13.7	20%	-29%
MARI	50.5	60.6	-17%	-38%

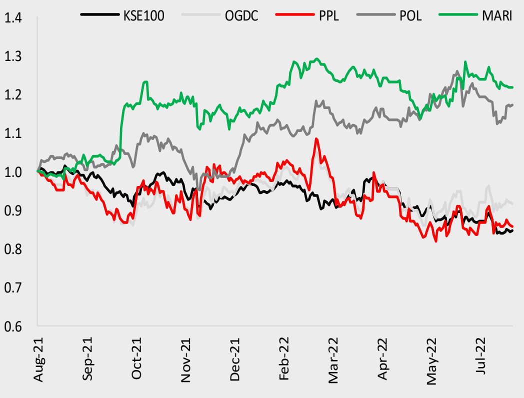
	FY22	FY21	YoY
OGDC	31.3	21.3	47%
PPL	24.6	19.5	26%
POL	78.0	47.1	66%
MARI	256.4	235.7	9%

Dividend Expectations (Rs/sh)

OGDC	2.0
PPL	2.0
POL	30.0
MARI	60.0

Source: Foundation Research, August 2022

Historical performance of E&P companies



Source: Bloomberg, Foundation Research, August 2022

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Pakistan Oil and Gas

Super tax to overshadow benefit of higher oil prices and exchange rate

Event

- We expect E&P sector profitability to decrease during 4QFY22 primarily because of super tax despite higher oil prices and exchange gains due to strengthening of dollar. Subsequently, restrict sector's profitability growth to 36% YoY in FY22. We expect profitability of POL to post earnings growth of 20% YoY in 4QFY22.

Impact

- **Super tax to overshadow benefit of higher oil prices:** Oil prices continue to increase for the eighth consecutive quarter in 4QFY22 on Russia Ukraine war and restricted supply from OPEC+ members. Arab Light averaged ~US$115/bbl in 4QFY22, up ~14.6% QoQ. However, imposition of super tax at a rate of 10% on tax year 2022 would overshadow the benefit of elevated oil prices and higher exchange rate.

- **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 14% YoY primarily because of decline in production from Nashpa (~20% YoY), TAL (~2% YoY) and Adhi Field (~27% YoY). While production from KPD field increased by ~4% YoY. FSL E&P universe gas flows declined by a mere ~1% YoY given lower flows from KPD (~3.9% YoY), TAL (~7% YoY), Sui (~7% YoY) and Qadirpur (~12% YoY). However, gas flows from MARI field increased by ~3.5% YoY in 4QFY22. In line with oil production LPG production is down by 5% YoY in 4QFY22 primarily because of lower production from Nashpa (~7% YoY) and Adhi (13% YoY).

- **POL to post earnings growth:** We expect POL 4QFY22 profitability to clock in at Rs16.4, up by 20% YoY, given elevated oil prices. This takes FY22 profitability to Rs78.0, up 66% YoY. POL production is down across the board mainly because of TAL Block. Result is likely to accompanied with cash payout of Rs30/sh.

- **Super tax to dent OGDC profitability:** We foresee OGDC to post an EPS of Rs5.2, down 10%/48% YoY/QoQ, in 4QFY22 mainly due to super tax amid lower production across the board. This would take full year profitability to Rs31.3/sh, up 47% YoY. We expect OGDC to announce dividend of Rs2/sh.

- **Production decline to restrict PPL's recovery:** We expect PPL to post an EPS of Rs5.4, down by 1%/29% YoY/QoQ, in 4QFY22 given super tax amid lower production across the board. Company's oil, gas and LPG production is down by 7% YoY, 3% YoY and 6% YoY, respectively. This would take full year profitability to Rs24.6/sh.

- **MARI to post drop on super tax:** We foresee MARI to post an EPS of Rs50.5, down 17%/38% YoY/QoQ, given super tax charge despite higher production amid elevated oil prices. This takes full year profitability to clock in at Rs256.4/sh, up by 9% YoY. We expect company to pay cash dividend of Rs60/sh.

Outlook

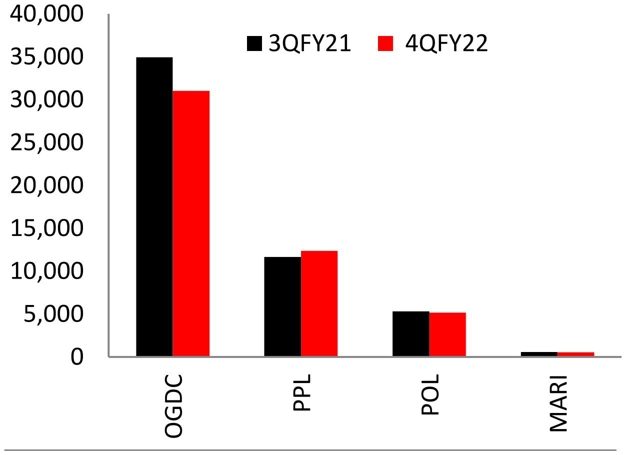
- We have an "Outperform" stance on the sector given elevated oil prices amid rationalization of gas prices. Lower operating cost, debt free balance sheet, dollar hedged revenue and improved security situation further strengthens our conviction.

Table 1: E&P profitability (Rs mn)

	4QFY22	4QFY21	YoY	3QFY22	QoQ	FY22	FY21	YoY
Sales	201,656	122,397	65%	178,583	13%	687,097	497,133	38%
Operating cost	43,983	33,035	33%	35,827	23%	149,668	140,370	7%
Royalty	26,589	16,021	66%	22,128	20%	86,711	62,702	38%
EBITDA	145,357	89,234	63%	129,283	12%	495,715	344,770	44%
Exploration Cost	9,750	14,100	-31%	6,232	56%	34,473	32,681	5%
EBIT	121,334	59,241	105%	114,950	6%	416,245	261,379	59%
Other Income	26,776	13,321	101%	15,481	73%	74,188	26,127	184%
Other Charges	8,927	3,760	137%	8,341	7%	33,340	19,906	67%
Finance cost	2,644	2,098	26%	1,937	36%	9,048	4,882	85%
Pre-tax profit	136,539	66,704	105%	120,153	14%	448,046	262,718	71%
Taxation	87,950	14,775	495%	38,909	126%	190,114	73,385	159%
Profit after tax	48,589	51,928	-6%	81,244	-40%	257,932	189,333	36%

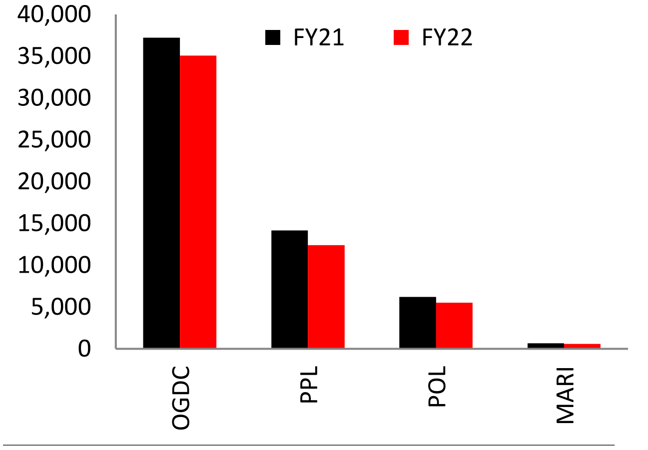
Source: Company Reports, Foundation Research, August 2022

Fig 1: Oil prod. slightly dropped in 4QFY22 (bpd)



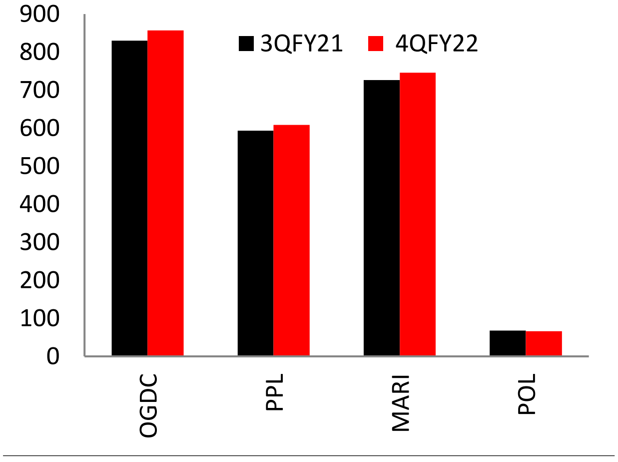
Source: PPIS, Foundation Research, August 2022

Fig 2: … so in FY22 (bpd)



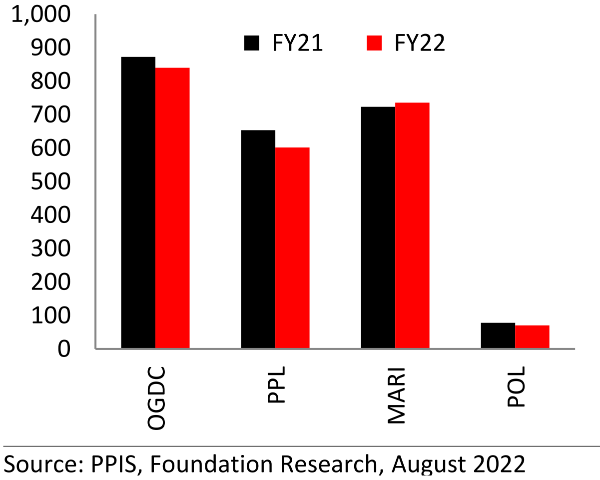
Source: PPIS, Foundation Research, August 2022

Fig 3: Gas flows improve sequentially in 4Q (mmcfd)



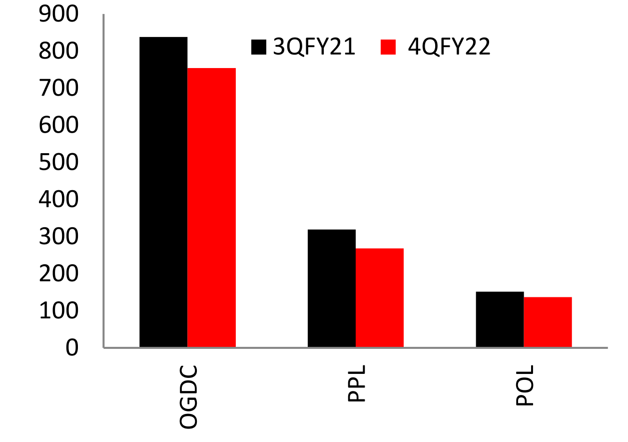
Source: PPIS, Foundation Research, August 2022

Fig 4: …while decline during FY22 (mmcfd)



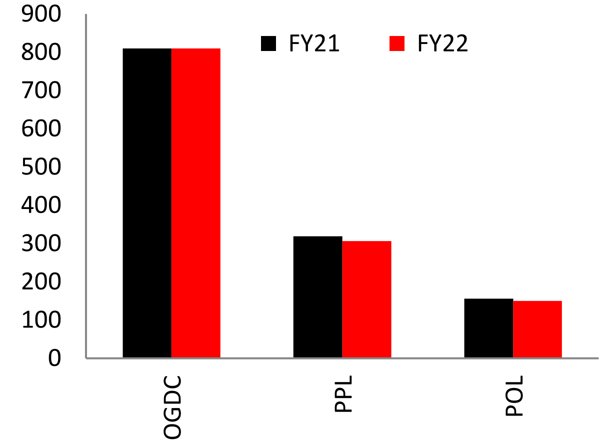
Source: PPIS, Foundation Research, August 2022

Fig 5: LPG production declineed sequentially (tpd)



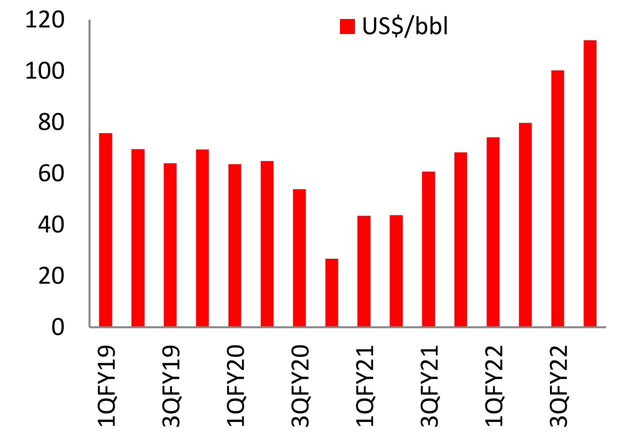
Source: PPIS, Foundation Research, August 2022

Fig 6: ..remained slightly lower in FY22 (tpd)



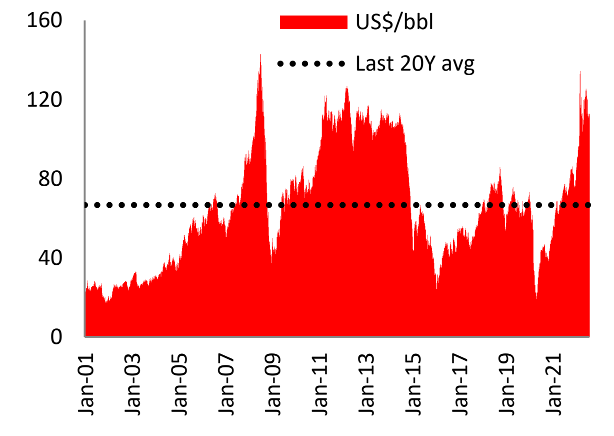
Source: PPIS, Foundation Research, August 2022

Fig 7: AL prices continue to soar in 4QFY22



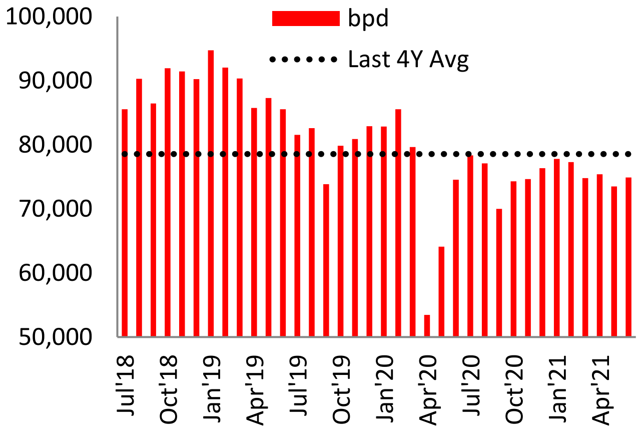
Source: Bloomberg, FSL Research, August 2022

Fig 8: …AL trading near peak



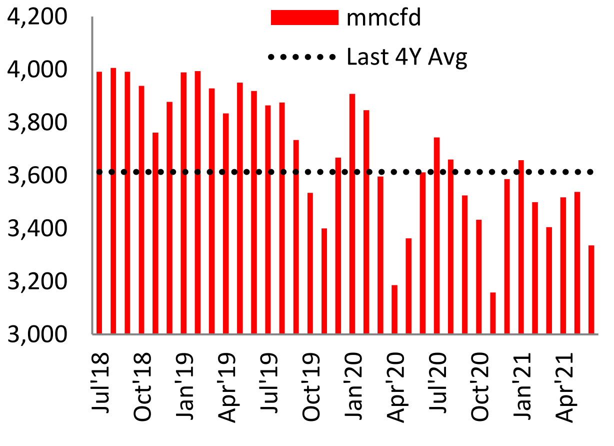
Source: Bloomberg, FSL Research, August 2022

Fig 9: Oil production below last 4Y avg in FY22…



Source: PPIS, Foundation Research, August 2022

Fig 10: …gas production still facing problems



Source: PPIS, Foundation Research, August 2022

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

Important disclosures:

Recommendations definitions

If

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