

PAKISTAN



Pakistan Oil and Gas

Oil and dollar to drive earning growth

Event

▪ We expect E&P sector profitability to increase during 1QFY23 primarily because of higher oil prices, elevated dollar indexation and exchange gains due to strengthening of dollar on sequential basis. Subsequently, sector profitability is expected to grow by 46% YoY in 1QFY23. We expect profitability of OGDC to outperform peers with earnings growth of 50% YoY in 1QFY23.

Impact

▪ **Higher oil and dollar indexation to propel earnings growth:** Oil prices decline on sequential basis in 1QFY23 from its peak quarterly average of US\$114.82 in 4QFY22 on the back of higher inflation and higher interest rates in West combined with lockdowns in China. However, oil prices are still higher 43% YoY to average at US\$106/bbl in 1QFY23 due to fear of lost Russian barrels.

▪ **Production decline across the board:** Production decline across the board due to supply chain disruption on the back of unprecedented monsoon season, in our view. As per the PPIS numbers, oil production of our E&P space is down by 10% YoY primarily because of decline in production from Adhi (~23% YoY), TAL (~4% YoY), Nashpa Field (~2% YoY) and KPD field (~6% YoY).

▪ FSL E&P universe gas flows declined by a mere 0.2% YoY given lower flows from KPD (~1.0% YoY), TAL (~11% YoY), Uch (~15% YoY), MARI (~3% YoY) and Sui (~8% YoY). However, gas flows from Qadirpur and Kandhkot field increased by ~5% YoY and 2.2x YoY in 1QFY23.

▪ In line with oil production LPG production is down by 14% YoY in 1QFY23 primarily because of lower production from TAL Block (~11% YoY), Adhi (18% YoY) and KPD (~39% YoY).

▪ **OGDC to lead the earnings growth:** We foresee OGDC to post an EPS of Rs11.7, up 50/132% YoY/QoQ, in 1QFY23 mainly due to higher dollar indexation and exchange gains despite production decline across the board. We expect OGDC to announce dividend of Rs2/sh.

▪ **Kandhkot flows to support growth:** We expect PPL to post an EPS of Rs8.9, up by 1.4x/18.8x YoY/QoQ, in 1QFY23 given higher gas flows on rejuvenation of flows from Kandhkot field and higher dollar indexation. Company's gas production increased by 12% YoY as flows from Kandkot field improved by 2.2x YoY.

▪ **Oil prices to lift POL profitability:** We expect POL 1QFY23 profitability to clock in at Rs27.3, up by 48% YoY, given elevated oil prices and higher dollar indexation. POL production is down across the board mainly because of TAL Block.

▪ **MARI to post robust profitability:** We foresee MARI to post an EPS of Rs96.9, up 42%/2.3x YoY/QoQ, given higher gas prices for MARI HRL base and incremental flows amid elevated dollar indexation. However, flows from field are expected to be down 3.2% YoY due to lower offtake from fertilizer plants on the back of maintenance.

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.

E&P Space profitability

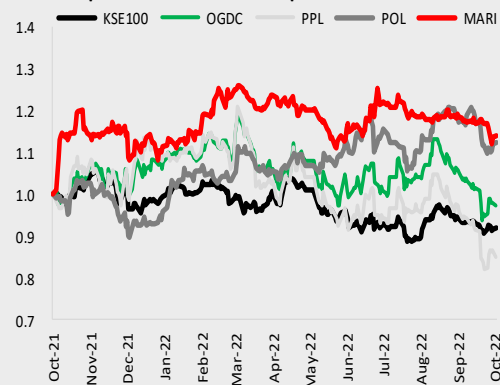
	1QFY23	1QFY22	YoY	QoQ
OGDC	11.7	7.8	50%	132%
PPL	8.9	6.2	42%	1882%
POL	27.3	18.5	48%	-8%
MARI	96.9	68.3	42%	131%

Dividend Expectations (Rs/sh)

OGDC	2.0
PPL	-
POL	-
MARI	-

Source: Foundation Research, October 2022

Historical performance of E&P companies vs KSE-100 Index



Source: Bloomberg, Foundation Research, October 2022

Analyst

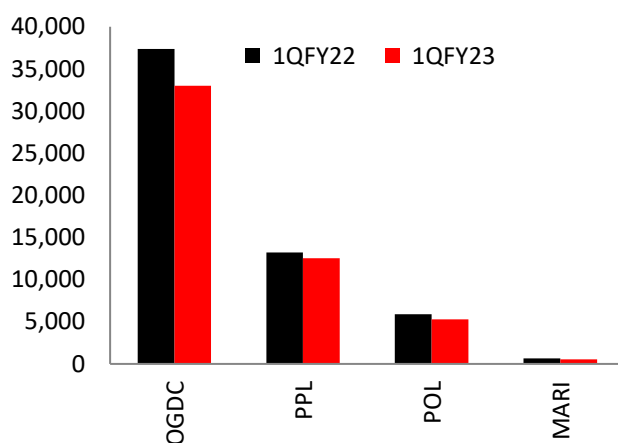
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 Friday, October 21, 2022

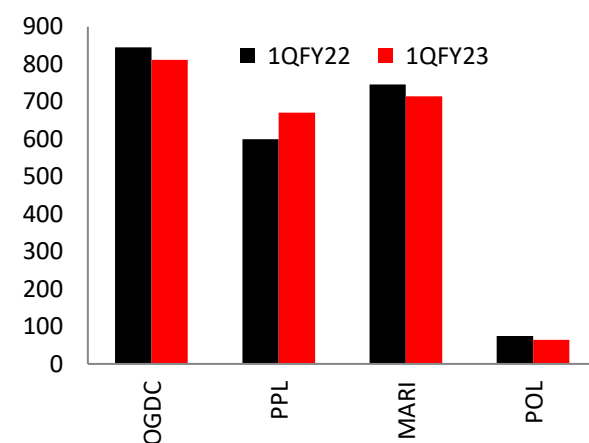
Table 1: E&P profitability (Rs mn)

	1QFY23	1QFY22	YoY	QoQ
Sales	219,937	146,487	50%	10%
Operating cost	51,596	34,430	50%	-1%
Royalty	29,189	18,365	59%	13%
EBITDA	157,403	105,477	49%	16%
Exploration Cost	10,350	9,201	12%	-61%
EBIT	128,803	84,492	52%	34%
Other Income	26,977	19,965	35%	2%
Other Charges	10,887	6,024	81%	-6%
Finance cost	2,827	2,409	17%	-23%
Pre-tax profit	142,066	96,024	48%	33%
Taxation	46,882	31,034	51%	-34%
Profit after tax	95,184	64,990	46%	165%

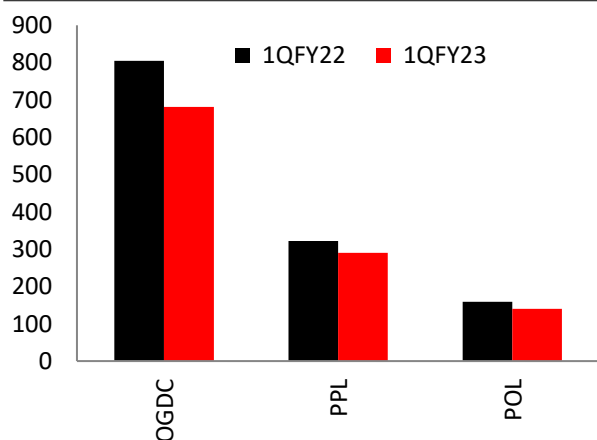
Source: Company Reports, Foundation Research, October 2022

Fig 1: Oil production dropped in 1QFY23 (bpd)

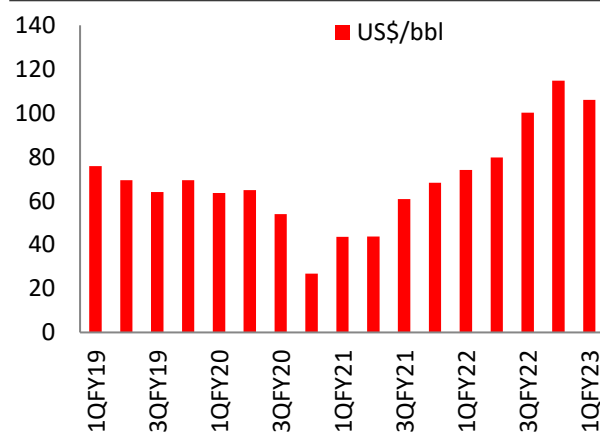
Source: PPIS, Foundation Research, October 2022

Fig 2: ... so is gas production (mmcf/d)

Source: PPIS, Foundation Research, October 2022

Fig 3: LPG production is down too (tpd)

Source: PPIS, Foundation Research, October 2022

Fig 4: Oil price decline on sequential basis

Source: PPIS, Foundation Research, October 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

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Recommendations definitions

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