

Pakistan Equity | E&P | Sector Research

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REP-057

E&P companies earnings revision Oil price assumption revised upwards



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E&Ps earnings revised up by 27-59% for FY22-FY24

E&Ps Earning Revision						
Rs/share	Revised			Previous		
	FY22E	FY23F	FY24F	FY22E	FY23F	FY24F
OGDC	35	39	35	21	24	23
PPL*	26	34	29	19	22	23
MARI	306	367	337	236	273	291
POL*	83	85	71	47	69	61

Source: PPIS, Topline Research

*Unconsolidated

E&Ps: FY23F Earnings Sensitivity w.r.t change in oil prices				
Arab light Oil price (US\$/bbl)	OGDC	PPL	MARI	POL
80	33	29	336	71
90	36	31	352	78
100*	39	34	367	85
110	42	36	369	92
120	44	38	372	99

Source: Topline Research

* Base Case

- Commodities have witnessed sharp rally recently driven by global macroeconomic recovery, global supply disruption post COVID-19 and the recent Russia-Ukraine crisis.
- S&P GSCI (Standard and Poor's Goldman Sachs Commodity Index) is up 42% YoY as of Mar 15, 2022. The index is also up 6% since start of Russia-Ukraine war that started on Feb 24, 2022. Similarly, WTI oil prices are up 48% YoY and is up 5% to US\$97/bbl since Feb 24, 2022. However, it is down 21% from the recent peak of US\$123.7/bbl on Mar 8, 2022.
- Due to volatility in oil prices and difficulty in estimating oil prices, we use Energy Information Administration (EIA) estimate as our benchmark for oil prices.
- EIA in its recent update on Mar 8, 2022 have raised its oil price forecast by 27%-32% to US\$101/bbl and US\$85/bbl for 2022 and 2023 respectively which we use for our forecast. We assume Arab Light Oil prices at US\$108.6/bbl and US\$91.2/bbl for 2022 and 2023 respectively taking into account its historical premium of 7% over WTI. On fiscal year basis, Arab Light Oil Prices is likely to average US\$94/bbl, US\$100/bbl and US\$87/bbl in FY22, FY23 and FY24 respectively.
- Every US\$10/bbl increase in oil prices increases the earnings of E&P companies by around 8% on average and vice versa. For OGDC, every US\$10/bbl increase lifts earnings by ~6-8%. For PPL, the impact is around 6-7% given its significant contribution from Sui field (11-13% of total production asset). MARI with its high concentration of gas producing assets have lower impact to the tune of 4-4.5%. On other hand, POL with highest production asset in oil fields is most sensitive to oil prices having an earnings impact of 7-10%.
- Given revision in our oil price assumption and incorporating 1HFY22 financial results, we revise up our E&P universe earnings forecast by around 27-59% for FY22-FY24.
- Circular debt and receivable pileup remain a key concern for companies (OGDC, PPL) as cash earnings for the companies are much lower.

Exploration activity to remain elevated in upcoming years

Blocks Awarded in Auctions held in January 2021

	Province	OGDC	PPL	MARI	POL
Killa Saifullah	Baluchistan	60%		40%	
Sharan*	Baluchistan	40%		60%	
Suleiman	Baluchistan	50%	50%		
Nareli*	Baluchistan			39%	32%
North Dhurnail**	Punjab			40%	60%
Sutlej	Punjab	100%			
Lilla	Punjab	100%			
Hazro	Punjab	100%			
Jhelum	Punjab	100%			
Vehari	Punjab	100%			
Khewari East	Sindh	100%			
Sujawal South	Sindh	100%			
Nowshera	KPK	100%			

Source: PPIS, Topline Research

*MARI is operator, **POL is operator, and the rest operated by OGDCL

- **Oil and Gas Development Company (OGDC):** We raise our OGDC earnings forecast by average 59% over FY22-24 after incorporating revised oil price assumption and 1H FY22 results. However, we have slightly increased our exploration cost estimate of the company for FY23/24. OGDC overdue receivables exposed to circular debt has increased from Rs304bn in June 2021 to Rs352bn in Dec 2021. Despite being affected by circular debt, OGDC still participated aggressively in the block auction held in January 2021. OGDC has participated in 11 blocks out of which 10 are operated by OGDC. This was the first major block auction after nearly 6-years.
- **Pakistan Petroleum Limited (PPL):** We revise up our earnings forecast by average 37% over FY22-24 after incorporating 1H FY22 results and higher oil price assumption. PPL trade debts increased to Rs287bn in Dec 2021 (up 14% from Jun 2021) as the evolving circular debt is restricting growth prospects of the company. PPL is one of those E&P companies which got adversely impacted from the rising circular debt problem. Given the cash position of the company, PPL has only participated in one block in last auction.
- **Mari Petroleum (MARI):** We have revised up our MARI earnings forecast for FY22-24 average 27% on the back of upward revision in oil price assumption and incorporating 1H FY22 results. Conservatively, we have not incorporated the impact of GTH project in our earning estimates as the timeline of the realization of production is still not certain. Net flow from this project is 150mmcf of gas that is expected in three phases out of which 48mmcf has already come online as per the company. However, the flows from Mari field still did not reflect this whole production outflow as per PPIS. MARI has remained insulated from the circular debt issue as the company mostly supplies gas to fertilizer plants where payment recovery is not a concern.
- **Pakistan Oilfields Limited (POL):** We have revised up our earnings forecast for POL by average 38% from FY22-24 after revision in oil price and 1H FY22 results.

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