ARIF HABIB LIMITED

REP-300

Revival of Reko Diq Project

The Home Run

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Revival of Reko Diq Project

Successful agreement to uplift Pakistan

As per announcement by the Prime Minister Imran Khan, Barrick Gold and Antofagasta have successfully ended a dispute on Reko Diq which includes penalty amount of USD 11bn, by World Bank arbitration. Moreover, under the out of court settlement, Barrick Gold will resume the project with 50% stake while the remaining 50% will be reserved for the Government of Pakistan (GoP) and the Government of Balochistan (GoB). We believe that the aforementioned deal will be a breakthrough in the mining sector of Pakistan whereby revival of the project will lead towards significant FDI inflows and later on the project is expected to contribute significantly in the overall exports of Pakistan. Additionally, with 50% local stake (previously 25%), the deal will have a significant impact on the listed companies including OGDC, PPL and others in terms of their profitability and multiple re-rating.

About Reko Diq

The Reko Diq mine is located in the district Chaghi of Balochistan and is potentially one of the world's largest undeveloped mine with an estimated copper and gold deposit of around 27,173mn Ibs and 16,098k oz.

Exhibit: Shareholding

GoP (OGDC, PPL and GHPL)	25.0%
----Government Holdings (Private) Ltd. (GHPL)	8.3%
----Oil & Gas Development Company Ltd. (OGDC)	8.3%
----Pakistan Petroleum Ltd. (PPL)	8.3%
Barrick Gold Corporation	50.0%
Balochistan Mineral Exploration Company (BMEC)	15.0%
Govt. of Balochistan (Free Equity)	10.0%
Total	**100%**

Source (s): AHL Research

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About Reko Diq

History

1993: Around 29 years ago, GoB signed an agreement with BHP Group Limited - an Australian mineral mining, metal and petroleum company - to explore the mining potential at Reko Diq and signed an agreement namely Chagai Hills Exploration Joint Venture Agreement (CHEJVA). The stake of BHP Group and GoB was 75% and 25%, respectively.

2000: BHP Group Limited sold its stake to another Australian company Mincor Resources NL.

2006: Tethyan Copper Company (TCC) acquired Mincor Resources. The TCC was a joint venture (JV) between Antofagasta of Chile and Barrick Gold Corporation of Canada. Moreover, Barrick and Antofagasta hold 37.5% each in the project while GoB holds 25%.

2011: The TCC after spending ~USD 200mn on exploration and technical studies along with feasibility of the project, submitted an application to the GoB for the mining lease of the project. The said proposal got rejected by the GoB due to variety of reason including enhancement of royalties to GoB, refusal of outsourcing of smelting and refining as well as higher than agreed inclusion of locals in the project, including at technical levels.

2011: After failed negotiation with GoB, the TCC took the matter to the International Centre for Settlement of Investment Disputes (ICSID), a World Bank group for international arbitration for the compensation of USD 11bn in damages and violation of the initial agreement.

2013: The Supreme Court of Pakistan termed CHEJVA null and void and issued orders that the TCC has no right of exploration and mining at the Reko Diq.

2019: The ICSID decided the case in favor of TCC and slapped a USD 6bn fine on Pakistan.

2022: Out of court settlement reached between Barrick, Anto, GoP and GoB.

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Project Overview

Project capex: The project is divided into two phases with total estimated capex requirement of USD 7bn (USD 4bn for 1st phase and USD 3bn for 2nd phase). In addition to this, the cumulative entry amount for the project is USD 2.2bn making the total size of the project USD 9-10bn. Moreover, we believe that project would have debt to equity ratio of 50:50.

Construction period: The construction period is expected to be 4 years from the financial close. With an immediate settlement, we believe that project will achieve financial close within a year.

Lease area: The total lease area of exploration license would be 350-400 sq. km. While mining lease area is expected to be 80-120 sq. km, the remainder land will be used to technical and feasibility studies along with seismic activities, with pending approval needed from the Federal and provincial government.

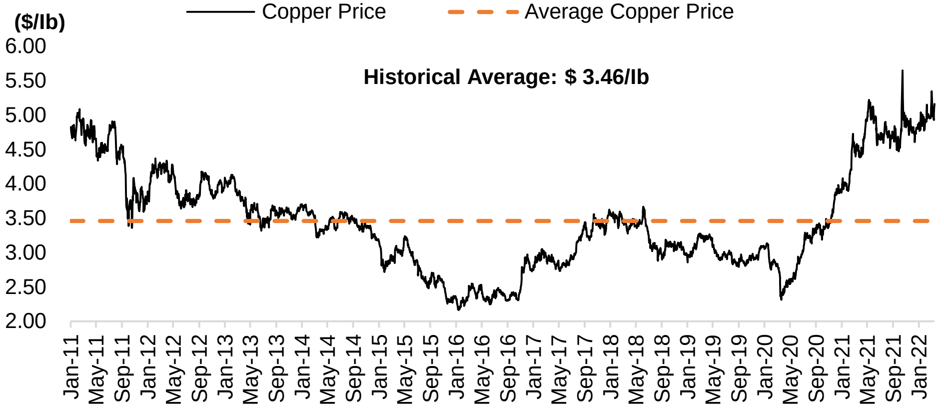
Total reserves size: It is estimated that total copper and gold reserves at Riko Diq are approximately 27,173mn lbs and 16,098k oz with mine life of around 40-45 years.

Annual production: The estimated annual copper production would be ~650mn lbs to 700mn lbs per annum for first 10 years and is expected to increase to 800mn lbs to 850mn lbs after phase 2 completion. Moreover, for gold, it is likely to be 300k oz. to 350k oz for the first 10 years (first phase) and expected to increase to 450k oz. to 500k oz. after expansion.

Revenue mix: Revenue mix is estimated at 80% copper and 20% gold, assuming conservative copper and gold prices using the last 10 year average of USD 3.5/lbs (USD 7,000/ton) and USD 1,446/oz, respectively. Total average revenue for the first ten years is likely to be USD 2.9bn and expected to increase to USD 3.7bn post completion of phase 2.

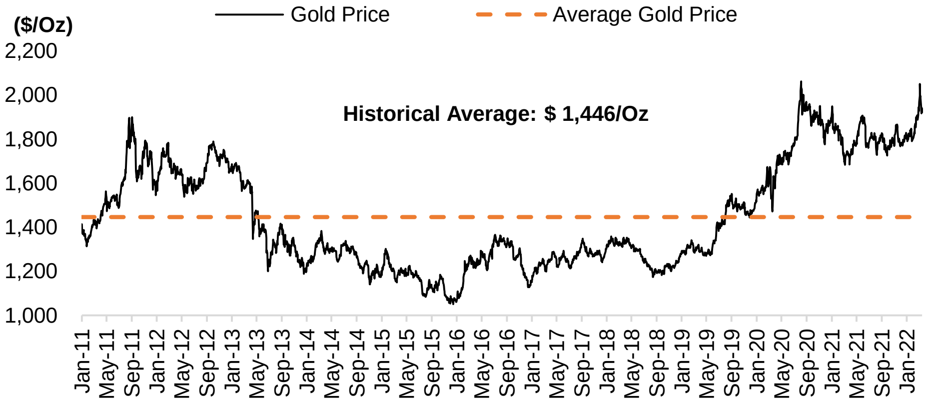
Major cost components: Processing of minerals will be a major cost component comprising nearly 40% of total cost followed by mine operations (24%) and royalties (13%). Refining, administration and freight will be other key cost heads.

Exhibit: Historical Trend Copper Prices



Source (s): Bloomberg, AHL Research

Exhibit: Historical Trend Gold Prices



Source (s): Bloomberg, AHL Research

Revival of Reko Diq Project

Settling the existing dispute

As per the announcement, Oil & Gas Development Company Limited (OGDC) and Pakistan Petroleum Limited (PPL) have entered into a non-binding framework agreement with Federal Govt., Balochistan Govt., GHPL, and Barrick Gold Corporation for facilitating the implementation of a joint mining project at Reko Diq mine. The agreement has been signed between federal and provincial government of Balochistan as well as Barrick Gold Corporation at an investment size of USD 10bn.

As per the agreement, Barrick Gold will have a 50% of stake in the project, while the remaining 50% shall be equally divided between Federal and Balochistan Government. The Federal Government's share will be divided amongst the three state owned entities including OGDC, PPL and GHPL each holding 8.33% stake in the project. Along with this, 10% out of the 25% stake in Balochistan Government will be free equity. Pertinently, the USD 900mn penalty to settle the existing dispute will be split between the GoP (62.5%) and the Balochistan Mineral Exploration Company (BMEC), whereby state owned companies (OGDC, PPL AND GHPL) will make equal payments (of USD 187.5mn each) on behalf of the government. With that said, the agreement has to be approved by the Supreme Court and Parliament.

Exhibit: Initial Entry Fee

Company/Party	USD mn
GoP (OGDC, PPL and GHPL)	562.5
---Government Holdings (Private) Ltd. (GHPL)	187.5
---Oil & Gas Development Company Ltd. (OGDC)	187.5
---Pakistan Petroleum Ltd. (PPL)	187.5
Balochistan Mineral Exploration Company (BMEC)	337.5
Total	**900.0**
Antofagasta Settlement	**(900.0)**

Source (s): AHL Research

Revival of Reko Diq Project

Impact on economy and listed space

Impact on economy: We believe that once the financial close is achieved, investment in the country will be reflected in augmented FDI's. Furthermore, the project is expected to add USD 3-4bn in country's total exports from 2026-27, supporting diversification of exports which should cushion the current account and help stabilize the Pak Rupee against external pressures.

Impact on OGDC and PPL: As per our estimates, OGDC and PPL will have an annualized earnings impact of PKR 5.56/share and PKR 8.80/share, respectively during the first phase of the project and the impact would increase to PKR 7.10/share and PKR 11.22/share post completion of phase two of the project. The entry fee is USD 187.5mn each for OGDC, PPL and GHPL and currently OGDC and PPL have cash and liquid assets of around PKR 70bn (out of which PKR 58bn / USD 329mn are $ based TDRs) and PKR 95bn (out of which PKR 38bn / USD 212mn are $ based TDRs) respectively. These appear adequate to fund the entry fee. In addition to this, OGDC and PPL have receivables from SNGP and SSGC (from the GoP) amounting PKR 267bn and PKR 275mn and any settlement of the same could also pave the way to further support funding for this project. To recall, FY23 EBITDAX of OGDC and PPL is PKR 241bn and PKR 146bn, respectively.

Impact on other sectors: Post financial closure, we believe that other sectors could also potentially benefit from the Rek Diq project. We estimate that over 60%-65% of the total project capital expenditure will be foreign denominated whereas 35%-40% will be locally sourced. We believe construction and allied demand will go up during the EPC phase along with civil works of the project, while a housing colony will also have to be constructed to support the staff once the project comes online. Therefore, this could propel the cement sector particularly aiding Attock Cement Pakistan Limited (ACPL) and D.G. Khan Cement (DGKC) as both plants are in Hub Balochistan, steel sector players in South namely Amreli Steels Limited (ASTL) and Agha Steel Limited (AGHA), automobile sector particularly truck assemblers such as Hinopak Motors Limited (HINO), Ghandhara Nissan Limited (GHNL) and Ghandhara Industries Limited (GHNI) and other allied industries including tubular steel player International Industries Limited (INIL), and tyre companies like Service Long March Tyres Pvt Ltd (via Service Global Footwear Limited).

Exhibit: Impact on PPL and OGDC

	Avg Revenue/Year (First 10 Years)		Avg Revenue/Year (Phase-II)	
	USD mn	**PKR bn**	**USD mn**	**PKR bn**
Revenue				
Company	2,900	522	3,700	666
OGDC's Share	242	44	308	56
PPL's Share	242	44	308	56
Net Profit				
Company	1,595	287	2,035	366
OGDC's Share	133	24	170	31
PPL's Share	133	24	170	31
EPS Impact (PKR)	First 10 Years	Phase-II		
OGDC	5.56	7.10		
PPL	8.80	11.22		

Source (s): AHL Research, *USD/PKR assumed @ 180

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Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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- Interest Rate Risk
- Exchange Rate (Currency) Risk

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