

OIL & GAS EXPLORATION COMPANIES

OUTPERFORM

Lower Oil & Gas Sales to Drop Profitability by 9% Q/Q

- **Universe PAT down by ~ 9% Q/Q.** We expect our E&P universe PAT to arrive at PKR 93.8 BN owing to 6% Q/Q decline in net sales. The primary reason for decline in net sales was a 5% and 1% Q/Q reduction in our universe's oil and gas volumes, respectively. Additionally, there will be absence of one-off tax reversals on depletion allowance case since all the listed scrips in our universe have availed it in the previous two quarters. As a result, effective tax rate is expected to rise by 5 ppts.
- **A significant 50% Q/Q drop expected in exploration expenses.** We expect our universe's exploration expenses to clock in at ~PKR 11.2 BN, which includes two drywells reported at Badhra Dir-16 [OGDC 20% stake] and Halini-2 [MPCL 60% stake], respectively. The reason for 50% Q/Q drop is due to a large impairment expense ~PKR 13.4 BN booked by MARI in 3QFY24.
- **Oil volumes down by 5% Q/Q.** Our universe's total crude oil volumes are anticipated to average at ~48,843 BPD (down/up 5.0/2.5% Q/Q / Y/Y), while gas volumes are to average at ~2,143 MMCFD (down 1.0/19.8% Q/Q / Y/Y), bringing total volumes to drop by 5.9% Q/Q to ~31.1 MMBOE. This makes Revenue/BOE to clock in at PKR 7.6 BN (down 0.03% Q/Q).
- **Sector outlook.** Even though gas prices were hiked in Feb-24, we are yet to see any notable improvement in trade debt flow of OGDCL, PPL, and MARI. One promising development during this quarter was the payment of long-due TFCs amounting to PKR 82 BN from PHL to OGDCL. Moving forward, we expect improvement in cash flow position of CD-hindered companies, which is expected to lead to better pay outs.

6 August 2024

Y/E: Jun	Jun-24E	FY24E	FY25E	
PKR/sh		EPS		FV
OGDC	10.77	50.55	47.52	220
MARI	101.59	488.61	519.22	2,500
PPL	9.78	45.22	42.60	180
POL	25.86	131.34	136.04	590
PKR/sh		DPS		DY%
OGDC	3.50	9.60	20.50	7.4%
MARI	73.00	171.00	260.00	6.6%
PPL	2.00	5.50	17.00	5.0%
POL	55.00	80.00	110.00	14.6%

*DY on FY24E DPS

Source: Optimus Research

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E&P's Estimates for 4QFY24

- **OGDC's EPS to come in at PKR 10.77/sh (-3/29% Q/Q / Y/Y).** OGDC earnings to clock in at ~PKR 46.3 BN due to low oil volumes (down 4.5% Q/Q), resulting from low offtakes from Nashpa field amid system constraint in SNGPL during May-24. However, exploration expenses are estimated to rise by 4% due to a dry well reported at Badhra-Dir-16, where OGDCL has a 20% stake. Similarly, we expect finance income to reduce by 4% Q/Q due to a low prevailing investment yields. Our dividend estimate aligns with OGDC's pay-out history ~PKR 3.5/sh. Furthermore, there may also be a one-off boost to the dividends owing to PKR 82 BN TFCs repayment from PHL. Our estimates suggest that after repaying PKR 40 BN unpaid dividends to GOP on account of BESOS, the company would have a net cash/sh of ~PKR 9.7.
- **PPL's earnings to arrive at PKR 9.78/sh (-4/+65% Q/Q / Y/Y).** PPL to post a PAT of PKR 26.6 BN this quarter. The Q/Q decline is on the back of 4% drop in oil volumes, occurring due to lower offtakes from Adhi fields on account of system constraints in SNGPL during May-24 and natural depletion of Tal fields.
- **MPCL's earnings to descend to PKR 101.59/sh (down 4/14% Q/Q / Y/Y).** MPCL to post earnings of PKR 13.5 BN, with a DPS of PKR 73. The reasons for sequential decline are 1) absence of one-off tax reversal availed in last quarter arising due to depletion allowance, 2) lower than 10% benchmark volumes (544 MMCFD in 4QFY24) from MARI's HRL reservoir impacting incremental price benefit. The reason for decline in volumes is due to lower gas offtakes from EFERT, resulting from ATA at the EFERT's EnVen plant. Conversely, exploration expenses supported MPCL's bottom-line since they are 80% low Q/Q due to absence of impairment expense booked in the last quarter.
- **POL's earnings to arrive at PKR 25.86/sh (-41%/+25% Q/Q / Y/Y).** POL earnings are expected to sharply drop by ~PKR 7.3 BN due to absence of tax reversal on depletion allowance case booked in the last quarter, resulting in a 29 pts jump in effective tax rate. The net sales are also down 11% Q/Q due to lower volumes resulting from a natural decline in Tal block fields production, thereby contributing to lower earnings.

E&P's Universe Estimates

PKR MNs	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
Net Sales	237,222	252,229	250,445	262,477	238,762	-6%	-1%	1,002,373	906,796	11%
Royalty	29,942	31,537	32,487	33,970	30,929	-5%	-3%	93,966	119,301	-21%
Operating Expenses	36,086	37,427	40,063	34,893	42,421	-4%	-15%	113,576	122,980	-8%
Gross Profit	152,799	166,035	161,629	177,195	147,969	-8%	3%	480,463	604,122	-20%
Exploration & Prospecting exp.	11,273	22,722	10,864	7,140	23,676	-50%	-52%	44,859	63,389	-29%
General & Admin expenses	3,181	3,172	3,471	3,520	4,573	0%	-30%	9,825	11,483	-14%
Operating Profit	138,345	140,141	147,294	166,534	119,720	-1%	16%	425,780	529,250	-20%
Other/Finance Income	28,031	27,119	20,280	27,508	98,755	3%	-72%	75,430	208,006	-64%
Finance Cost	3,781	3,567	3,184	4,097	3,948	6%	-4%	10,532	17,594	-40%
WPPF	10,762	11,380	11,804	11,935	12,656	-5%	-15%	33,946	44,252	-23%
Share of Profit/(Loss) in Associate	2,771	2,957	2,928	2,748	3,997	-6%	-31%	8,656	10,364	-16%
Profit before Tax	153,812	154,640	155,126	179,921	205,199	-1%	-25%	463,578	684,880	-32%
Tax	59,987	52,713	15,485	72,405	102,416	14%	-41%	128,186	269,743	-52%
Profit after Tax	93,826	101,927	139,640	107,516	102,783	-8%	-9%	335,393	415,136	-19%
Gross margin	64%	66%	65%	68%	62%			48%	67%	
Net margin	40%	40%	56%	41%	43%			33%	46%	
Effective tax rate	39%	34%	10%	40%	50%			28%	39%	
Oil (BPD)	48,843	51,428	50,917	50,555	47,629	-5%	3%	201,743	202,548	0%
Gas (MMSCFD)	2,143	2,165	2,023	2,218	2,673	-1%	-20%	8,548	9,255	-8%
Avg Crude (USD/BBL)	87	83	87	90	80	5%	9%	86	92	-7%
Avg USD/PKR	278	280	283	291	286	0%	-3%	280	249	13%

Source: Company Accounts, Optimus Research

Company Specific Preview

PKR/sh	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
EPS										
OGDC	10.77	11.12	17.27	11.40	15.11	-3%	-29%	50.55	52.23	-3%
MARI	101.59	105.88	137.64	143.50	118.72	-4%	-14%	488.61	420.75	16%
PPL	9.78	10.16	14.39	10.89	5.92	-4%	65%	45.22	35.99	26%
POL	25.86	43.55	27.73	34.20	20.66	-41%	25%	131.34	128.42	2%
DPS										
OGDC	3.50	2.00	2.50	1.60	2.75	75%	27%	9.60	8.55	12%
MARI	73.00	-	98.00	-	58.00	-	26%	171.00	147.00	16%
PPL	2.00	1.00	2.50	-	1.50	100%	33%	5.50	2.50	120%
POL	55.00	-	25.00	-	60.00	-	-8%	80.00	80.00	0%

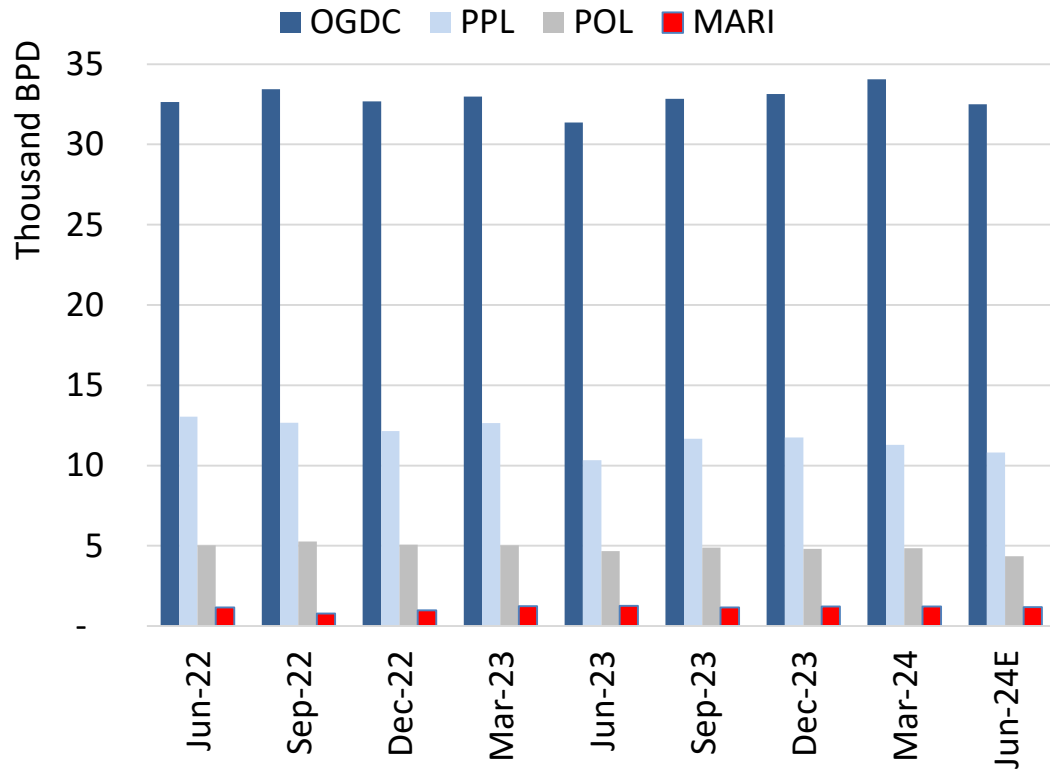
Source: Company Accounts, Optimus Research

Company Specific Margins

Margins	Jun-24E	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y	FY24E	FY23	Y/Y
OGDC										
Gross Margin	60.7%	64.2%	59.2%	64.9%	55.2%	-3.4%	5.5%	62.3%	65.2%	-2.9%
EBITDAX Margin	67.8%	69.7%	64.5%	70.2%	61.4%	-1.9%	6.4%	34.5%	36.6%	-2.1%
Operating Margin	55.8%	59.4%	55.0%	60.9%	44.2%	-3.6%	11.6%	57.8%	58.9%	-1.1%
Net Margin	41.5%	42.4%	64.4%	40.8%	62.2%	-0.8%	-20.7%	47.3%	54.3%	-7.0%
Effective Tax Rate	39.0%	41.2%	-2.9%	43.1%	50.5%	-2.2%	-11.5%	31.1%	41.5%	-10.4%
MARI										
Gross Margin	66.3%	64.1%	71.9%	71.8%	65.6%	2.2%	0.7%	68.6%	69.4%	-0.7%
EBITDAX Margin	74.2%	71.0%	77.9%	76.9%	73.2%	3.2%	1.0%	40.3%	31.9%	8.4%
Operating Margin	57.9%	32.0%	68.7%	68.1%	51.8%	26.0%	6.1%	56.4%	58.4%	-2.0%
Net Margin	35.7%	29.3%	40.3%	39.7%	33.7%	6.4%	1.9%	36.2%	38.5%	-2.3%
Effective Tax Rate	39.0%	8.3%	39.8%	40.5%	36.8%	30.7%	2.2%	35.0%	34.6%	0.4%
PPL										
Gross Margin	68.3%	68.1%	67.6%	68.0%	66.7%	0.2%	1.7%	68.0%	66.9%	1.2%
EBITDAX Margin	73.5%	73.6%	72.6%	72.7%	71.7%	-0.1%	1.8%	36.5%	34.6%	1.9%
Operating Margin	61.3%	62.0%	57.2%	63.9%	53.1%	-0.7%	8.2%	61.1%	57.9%	3.2%
Net Margin	36.3%	36.9%	54.1%	38.3%	22.3%	-0.6%	14.1%	41.3%	34.2%	7.1%
Effective Tax Rate	39.0%	37.6%	1.1%	37.9%	56.3%	1.4%	-17.3%	29.8%	40.9%	-11.1%
POL										
Gross Margin	68.0%	71.9%	67.6%	71.7%	74.8%	-3.9%	-6.9%	69.8%	68.5%	1.3%
EBITDAX Margin	72.2%	74.4%	69.7%	74.3%	69.9%	-2.1%	2.4%	37.8%	36.2%	1.6%
Operating Margin	63.9%	69.4%	64.8%	66.7%	71.9%	-5.5%	-8.0%	66.2%	56.9%	9.3%
Net Margin	50.8%	75.9%	45.3%	58.2%	38.9%	-25.1%	11.9%	57.6%	59.8%	-2.3%
Effective Tax Rate	39.0%	9.8%	39.0%	29.8%	51.8%	29.2%	-12.8%	28.9%	26.6%	2.4%

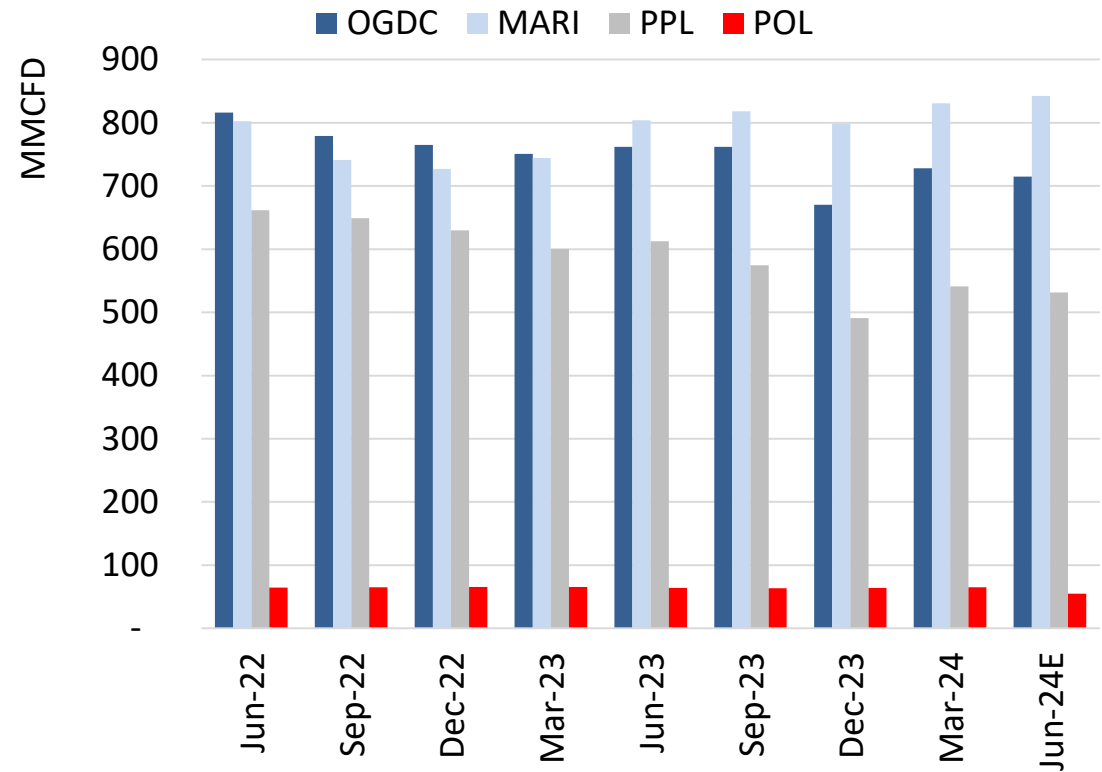
Source: Company Accounts, Optimus Research

Chart 1: Company wise oil volumes in 4QFY24E



Source: PPIS, Company Accounts, Optimus Research

Chart 2: Company wise gas volumes in 4QFY24E



Source: PPIS, Company Accounts, Optimus Research

Analyst Certification

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