



## Today's Daily

### ■ Pakistan E&Ps: The looming risk

Recent bourse filings regarding the unilateral amendment of supplemental agreement (SA) and the resultant implementation of windfall levy have added to the list of uncertainties that linger on in the E&P sector (pertaining to gas pricing). While the issue relates to all those licenses awarded on PP94/97 and whose operators have signed supplemental agreements to convert to PP12, the most talked about concession remains TAL block, where revised gas prices had been issued back in Oct'17. Our understanding of the subject matter suggests that there could be 2 most likely outcomes of the matter being challenged in the court: 1) imposition of windfall levy prospectively along with higher gas prices (trimming annualized EPS of OGDC/PPL/POL by PkR0.25/0.56/2.11) or 2) the petitioners deciding to revert back to older policy (PP97) with PP01 applicable prices (shaving off annualized EPS of OGDC/PPL/POL by PkR0.22/0.57/5.09) in case the levy is imposed retrospectively. Apart from this, PPIS reported updated reserves for Dec'17, which includes asset size for POL's recent discovery of Jhandial well at 23.99mnbbls and 292.1BCF gas. With intl. oil prices still averaging above its 2.5 year high and a host of exploration activities being conducted, we believe news flows on these fronts will drive the sectors' performance going forward.

#### KSE100 - Index

Current	42,911.02
Previous	43,267.20
Chg.	-0.82%

#### Mkt Cap. (PkRbn/US\$bn)

Current	8,951 / 80.95
Previous	8,988 / 81.29
Chg.	-0.42%

#### Daily Turnover (mn)

Current	167.62
Previous	244.51
Chg.	-31.4%

#### Value Traded (PkRmn/US\$m)

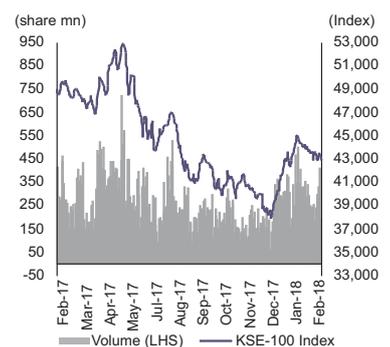
Current	7,177 / 64.91
Previous	10,079 / 91.16
Chg.	-28.8%

# AKD Daily

Tuesday, Feb 27, 2018

## News and Views

- The Central Working Committee (CWC) of PML-N will appoint Punjab CM Shehbaz Sharif as the acting party president of the party at its meeting scheduled today.
- As per SBP, Foreign companies repatriated US\$1.343bn in profits to their homelands in 7MFY18, up 26%YoY, with financial businesses remaining the biggest beneficiary of profitability. In Jun'18 alone, profit repatriation from foreign firms amounted to US\$141.2mn (down 47%YoY)
- As per news report, 1 out of the 3 planned electric power generating units (470MW units each) under Tarbela 4th Extension Hydropower Project started electricity generation on Monday (26'02'18).

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## Pakistan E&Ps: The looming risk

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**The case of Windfall levy:** The model supplemental agreement (for the conversion of concessions previously awarded to PP12) does not have any mention of windfall levy on crude/condensate, though it does oblige the payment of windfall levy on natural gas supplied to 3rd party customers (those apart from GoP). In this regard, post signing of the agreement in lieu of TAL block, OGDC notified official gas prices in Oct'17 (for previous periods). But an SRO issued by GoP on Dec 27'17 apparently required the E&P companies who signed the SA to pay windfall levy on crude/condensate (retrospectively as well), the case of which is now being challenged in the court. Based on this, POL in its 1HFY18 results reversed the gains booked from Jun'15 to Dec'17 (on improved gas pricing) amounting to PkR3.01bn (EPS impact of ~PkR6) while not booking the excess gains for prior periods amounting to ~PkR3.40bn (EPS impact ~PkR6.5), while PPL and OGDC did not follow suit. Having said this, we believe there can be 3 outcomes of the situation (assuming enhanced gas prices are incorporated from FY19 onwards):

1) companies being ordered to pay their share of retrospective levies with a one-time EPS hit of PkR2.74/6.25/36.25 for OGDC/PPL/POL, continue with higher gas prices (POL books a one-off PkR12.5/sh gain) and pay the levies prospectively as well trimming ~PkR0.25/0.56/2.11/sh for OGDC/PPL/POL going forward,

### Key blocks converted from PP94/97 to PP12

	Operator
Gurgalot	OGDC
Sinjhoro	OGDC
Khewari	OGDC
Nim	OGDC
TAY	OGDC
Bitrisim	OGDC
Tal	MOL

Source: AKD research & Company Accounts

<b>KATS Code</b>	<b>OGDC</b>
<b>Bloomberg Code</b>	<b>OGDC.PA</b>
<b>Price PkR</b>	<b>161.92</b>

Market Cap (PkRmn)	706,815
Market Cap (US\$m)	6,396.51
Shares (mn)	4,365.21
3M Avg Turnover '000	1,623.13
1 Yr Avg Turnover '000	1,863.00

3M Avg DT Value (US\$m)	2.43
1Yr Avg DT Value (US\$m)	2.70

<b>KATS Code</b>	<b>PPL</b>
<b>Bloomberg Code</b>	<b>PPL.PA</b>
<b>Price PkR</b>	<b>201.12</b>

Market Cap (PkRmn)	396,551
Market Cap (US\$m)	3,588.70
Shares (mn)	1,971.72

3M Avg Turnover '000	806.59
1 Yr Avg Turnover '000	759.92

3M Avg DT Value (US\$m)	1.49
1Yr Avg DT Value (US\$m)	1.24

<b>KATS Code</b>	<b>POL</b>
<b>Bloomberg Code</b>	<b>POL.PA</b>
<b>Price PkR</b>	<b>617.92</b>

Market Cap (PkRmn)	146,166
Market Cap (US\$m)	1,322.77
Shares (mn)	236.55

3M Avg Turnover '000	272.37
1 Yr Avg Turnover '000	282.08

3M Avg DT Value (US\$m)	1.46
1Yr Avg DT Value (US\$m)	1.36



2) Prospective imposition of levy with higher gas prices being continued (Pkr0.25/0.56/2.11/sh recurring impact on OGDC/PPL/POL and POL again booking a one-off: ~Pkr12.5/sh gain), or

3) companies deciding to abandon higher gas prices and reverting back to PP97 (in-line with an option provided in the SRO if the levy is imposed retrospectively) while not paying levies in turn losing Pkr0.22/0.57/5.09/sh from the bottom-line for OGDC/PPL/POL. In addition, PPL and OGDC will have to reverse their prior gains amounting to ~Pkr2.92/sh and ~Pkr0.97/sh, respectively.

Although reinstatement of the original agreement seems less probable, managements remain hopeful of a positive outcome, and based on that, we believe the second and third outcomes are likely. Further, this would suggest that every new bbl of oil/condensate (discovery) in TAL block will now be subject to ~US\$4.22/bbl of windfall levy at our long term assumption of US\$55/bbl with the impact subsiding as the field ages.

**PPIS updates reserve data:** PPIS has recently updated the 2P reserves data of various leases, where key POL fields which underwent revision were Jhandial and Mardankhel. OOIP of 23.99mnbbbls and OGIP of 292.1BCF gas at Jhandial confirms with the preliminary estimates released by various informal sources. In general, Jhandial-1 well has been exhibiting a declining flow (now at 978bpd and 8.85MMCFD gas), and 6 months past its original discovery, the company still states it to be in the evaluation stage with no traces of any appraisal well so far. Spudding of further wells (appraisals) will indicate the actual flow rate of the well while giving a more accurate insight on the reserves in place.

**Investment perspective:** Rectification in an agreement (SA) once signed by the parties bodes negative for the sector in general, impacting the 3 major listed E&P companies. While POL suffers the most with ~71% reliance on TAL block as of 1HFY18, the other 2 majors remain relatively immune to any adverse decision possessing a diversified asset base. This said, higher oil prices (still hovering close to its 2.5 year at ~US\$60/bbl) and a host of exploration activities are key developments to look out for and will drive the sector performance accordingly.



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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