

PAKISTAN OIL & GAS

MARKET VISTA

Crude sings a merry song to pre-pandemic levels

- Citing the continued upswing in crude benchmarks following significant momentum seen in the tail end of CY20, we provide a situation report on factors driving the recent spike in prices to reach 11-month highs
- Delving into the underlying OPEC+ dynamics and Saudi Arabia resuming its role as the clubs swing producer, we highlight the role player by the nation, establishing it as a King-pin for global crude production
- On the flipside, despite recent catalysts, we see major dampeners to price sustainability where doubts over transportation fuels recovery from the second wave of COVID (China cases hit five month high, Tokyo lockdown, EU lockdowns) and clear indications of US shale supply ramping up over the short term have the potential to spoil this ride
- OGDC is our top pick, citing relative success in aggressive exploratory efforts coupled with G&G studies geared to untapped regions with lucrative pricing incentives. OGDC trades at an appealing FY21 P/E of 5.2x assuming crude averages US\$45/ bbl. Our TP of PkR185/sh implies ~60% capital upside exclusive of FY21 D/Y of 6.5%.

“Fast tightening of demand” scenario underpins recent rise: Recent spike in crude benchmarks can be attributed to: 1) significantly higher than expected crude draw in the US (5.8mn bbls decline vs. 2.5mn bbls expected), indicating supportive refinery runs meeting higher than expected refined fuels demand, and 2) process of vaccine approvals by national regulators and rollout in advanced economies (which had largely pre-booked vaccines) continued at a fast clip, with reported numbers indicating ~27mn vaccinations administered globally during the three and a half weeks since first doses were made available. To recall, crude optimism over the tail end of CY20 was a function of the passage of US\$900bn in additional stimulus by the US, vaccine efficacy coupled with distribution following approvals from major regulatory bodies, strong carryover of Asian demand on the back of strong macros and tensions in the Middle East (Iran actions against Korean tanker). These bullish sentiments were tempered by the UK announcing new round of restrictions following the an-announcement of a mutated strain of COVID which is highly transmissible and was followed by cases of the mutated virus spreading globally.

Saudi resumes role as swing producer, OPEC compliance withers: Heading into Jan’21, prices were muted on the back of new reports indicating Russia was adamant on lifting supply curbs ahead of the OPEC+ monitoring committee to assess supply cuts. However, oil prices climbed to 11 month highs, as Saudi Arabia announced a surprising 1mn bpd unilateral supply cut for February and March, thus wildly topping market expectations which had seen a rollover of current cuts as the best case outcome. Moreover, Russia and Kazakhstan were allowed to raise output by a modest 0.15mn bpd combined. This continued the Saudi role as sole swing producer (abiding by previous quota and producing 9.1mn bpd for Jan’21 according to Platts), where previous tussles over market share (most recently during March-April’20) falling through to crude hitting historic lows, underpin its role as cushion to absorb potential weakness in demand, possibly driving its motive to unilaterally curb supply this time around. Going forward on the OPEC+ front, ministers will meet again on March 4th (following smaller 9 member monitoring meeting on Feb 3rd) to evaluate fundamentals and April production levels.

Reasons to doubt sustainability remain prominent: Three core reasons we remain pessimistic on the sustainability of the current bout of crude optimism are: 1) continuing effects of the second wave of COVID-19 where the spread of additional variants remain worrisome as lockdown restrictions now spread from EU to Asian markets (China COVID cases rise to five month high, Tokyo lockdown, South East Asian economies witnessing spike in cases) keeping a lid on transport fuel demand growth, 2) US rig counts moving in positive territory, where mid-50’s are scene as critical for restarting shale oil production, where the latest Kansas City Fed survey indicated US\$56/bbl level as tipping point for resuming production, and 3) long term dampeners to both supply (OPEC compliance faltering, resumption of US relations with Iran) and demand (questions over vaccine hesitancy, stringent environmental targets adopted by EU, China).

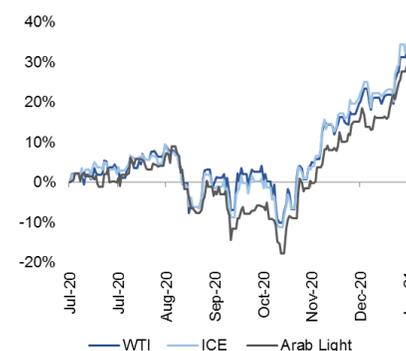
Ali Asghar Poonawala
ali.poonawala@akdsecurities.net
111-253-111 Ext:646

TP Sensitivity to Crude Prices (USD/bbl)

Crude Avg. (US\$/BBL)	FY21	FY22	FY23	TP (PkR)
OGDC (PkR/sh)				
60	24.00	25.73	27.02	210
55	23.34	24.53	25.99	202
50	22.68	23.30	24.94	193
45	22.13	22.03	23.82	185
PPL (PkR/sh)				
60	20.70	21.00	20.70	171
55	20.05	20.06	19.74	166
50	19.40	19.12	18.78	160
45	18.46	18.18	17.82	155
POL (PkR/sh)				
60	63.74	60.62	56.48	486
55	61.49	57.12	52.78	459
50	59.09	53.62	49.08	432
45	56.69	50.22	45.42	406

Source: Company Report & AKD Research

Major Crude Benchmarks Climb



Source: Bloomberg & AKD Research



AKD Securities Limited

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10Yr PIB) plus risk premium.

Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.

New Rating Definitions

Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net