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PAKISTAN
E&Ps

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MARKET
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Making further inroads into LPG production

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- **Traditionally composed of Oil and Natural gas, the revenue stream of domestic E&P companies is now accommodating a larger portion of LPG sales, made possible after heavy developmental works at Nashpa, KPD, Adhi and Makori East.**
- **From almost a negligible share in FY13, combined top-line (OGDC/PPL/POL) now incorporates 7.2% of LPG sales in FY18, as the refined product fetches better revenues for the company as compared with NGLs sold previously in the raw form.**
- **Amidst rising oil prices, OGDC is our preferred play on the back of decent total upside potential of 28%, incorporating a dividend yield of 7.3%. Our conviction stems from recent discoveries yet to be connected and the upcoming drilling program in the lesser explored areas.**

Top LPG Producing Fields

	FY18 (TPD)
Makori East	333.24
Adhi	268.6
Nashpa (Latest)	227
Maramzai	108.02
Kunnar Pasakhi Deep	106.07

Source: PPIS & AKD Research

LPG production on the rise: From a meagre 2.7% contribution towards the combined top-line of E&P companies under our coverage in FY13, LPG sales have now grown to over 1,370TPD, marking a prominent share of 7.20% of the total net sales. Company wise, per share impact of LPG sales on OGDC/PPL/POL comes out to be PkR1.32/1.11/8.2/sh for FY18, a sharp rise from close to negligible impact in FY13. Exponential growth was witnessed as developmental projects reached completion at various fields with OGDC's share of LPG output growing at a CAGR of 43.6% since FY13. As of now, Makori East leads the board in terms of total LPG production, with ~333TPD. Developmental project reached completion at Nashpa in Feb'18, producing ~166TPD of LPG, while enhanced output from KPD has resulted in LPG production of ~106TPD. On company-wise basis, OGDC remains on top with ~666TPD of LPG followed by PPL.

Share of LPG

	FY14	FY15	FY16	FY17	FY18
Net Sales (PkRmn)					
OGDC	257,014.25	210,624.96	162,866.58	171,829.36	205,335.00
PPL	119,811.35	104,837.99	69,597.87	116,986.31	126,621.24
POL	35,539.70	30,881.12	24,848.22	27,169.75	32,664.98
Total Net Sales	412,365.31	346,344.06	257,312.67	315,985.43	364,621.22
LPG Revenues (PkRmn)					
OGDC	4,964.10	5,770.09	5,371.79	7,196.58	14,817.37
PPL	2,109.10	3,921.83	3,373.38	3,896.58	6,038.46
POL	4,129.06	5,687.18	4,592.31	4,793.16	5,389.95
Total LPG Revenue	11,202.26	15,379.09	13,337.49	15,886.32	26,245.78
LPG revenue as % of total Net Sales					
OGDC	1.93%	2.74%	3.30%	4.19%	7.22%
PPL	1.76%	3.74%	4.85%	3.33%	4.77%
POL	11.62%	18.42%	18.48%	17.64%	16.50%
LPG Sales as % of Net Sales	2.72%	4.44%	5.18%	5.03%	7.20%
Approx. EPS Impact (PkR/sh)					
OGDC	0.55	0.55	0.46	0.62	1.32
PPL	0.46	0.74	0.62	0.83	1.11
POL	6.29	6.49	5.63	7.09	8.20

Source: PPIS & AKD Research

… fetching higher overall revenues: LPG, in its raw form, is a by-product of natural gas which is composed of varying sizes carbon chains. Usually referred to as a subset of NGLs (Natural Gas Liquids), LPG is made up of Propane and Butane isomers and is typically filtered out before Natural Gas is sold to customers. Typically, NGL yields low margins products (gases/LPG) for refiners, and have been sold in conjunction with crude oil/condensate in Pakistan. This is one of the reasons of low per barrel realized prices of crude/condensate for large E&P companies. To note, OGDC's realized oil prices from FY13-16 were on average at a discount of 16% from the Arab Light, while the gap closed down to 14% in 3QFY18. With the setup of LPG recovery plants, E&P

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companies now benefit with a better overall product slate and prices which are at a comparatively lesser discount to the benchmark Arab Light, hence aiding in higher profitability for the companies. Moreover, being a de-regulated petroleum product, its prices are rising in conjuncture with global crude oil prices where Pakistan imported ~0.4mn tons of LPG in FY17, as per the Energy Yearbook.

Outlook: We believe on-going developmental projects (Mela, drilling at TAL block) and upcoming discoveries will have the potential to make LPG an even larger portion of revenues, further benefitting the E&P companies. With oil prices making new highs every passing month (since their crash in late 2014), upstream oil and gas companies provide an adequate stream of capital upside and dividend yield to the investors. In this regard, we highlight that foreign selling in OGDC is a part of global reallocation of portfolio and has less to do with the company fundamentals, which are becoming firmer with 5 discoveries in FY18 yet to be connected to the production facilities, along with planned wells in blocks awarded under FY14 bidding round. The company offers a total (risk free rate adjusted) upside of 28% including a 7.5% dividend yield (and hence makes it our preferred play). On the other hand, although PPL also offers a decent capital upside at current levels, we believe delays in the commissioning of Gambat South projects (GPF III and IV) present a high level of risk.

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