

Oil and Gas Exploration Sector

Govt. to sell 15% stake in Reko Diq Project

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- According to media reports, the government has approved the sale of a 15% stake in the Reko Diq Project to Saudi Arabia for USD 540mn (~PKR 150bn). An official press release for the same is still awaited.
- Saudi Arabia is expected to make the payment in two phases: USD 330mn in the Phase-I and the remaining USD 210mn in the Phase-II.
- Reko Diq Mine, located in Chagai, Balochistan, is one of the world's largest underdeveloped copper-gold mines.
- The mine is estimated to have reserves of 5.9 bn tons of copper and 41.5mn oz of gold, with a mining life of 40 years.
- In the Reko Diq Project, Barrick Gold owns a 50% stake, while the federal government and the Government of Balochistan each own 25%.
- Federal Government's stake is held through OGDC, PPL, and GHPL, with each holding an 8.33% stake.
- OGDC and PPL has made an initial investment of USD 188mn each in the project.
- Assuming the government divest 5% stake from each of the three mentioned companies, each will retain a 3.33% stake in the project.
- As per the financial accounts of Sep'24, OGDC and PPL's investments in the project stand at PKR 53bn each (PKR 12.38/share for OGDC and PKR 19.40/share for PPL).
- In the event of the sale of stake, OGDC and PPL are expected to book gain of investment of PKR 2.56/share and PKR 4.12/share, respectively. Additionally, the cash flow impact is projected at PKR 11.63/share for OGDC and PKR 18.39/share for PPL.
- Reko Diq Project was undergoing feasibility study (which was scheduled to conclude towards end of 2024). Post completion of feasibility study, construction activity is expected to commence at the mine.
- The mining operations are projected to begin in 2028.

Exhibit: Impact of sale of Reko Diq stake to Saudi Arabia

| | Unit | OGDC | PPL |
|----------------------------------|------------|--------|--------|
| Initial Equity Investment | USD mn | 188 | 188 |
| Total Equity Investment | PKR mn | 38,828 | 38,378 |
| Current Book Value (8.33% stake) | PKR mn | 53,246 | 52,782 |
| Current Book Value (5.00% stake) | PKR mn | 31,961 | 31,682 |
| Expected net inflow | USD mn | 180 | 180 |
| Expected net inflow | PKR mn | 50,040 | 50,040 |
| Gain on Investment (After tax) | PKR mn | 11,028 | 11,198 |
| Earnings Impact | PKR /share | 2.56 | 4.12 |
| Cash flow impact | PKR /share | 11.63 | 18.39 |

Source (s): Company Financials, AHL Research

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|--------|--|
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Equity Valuation Methodology

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

- Discounted Cash Flow (DCF)
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- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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