ARIF HABIB LIMITED

January 22, 2025

REP- 300

Production update & result preview of 1HFY25

1HFY25: Oil and gas production declined by 10% and 7% YoY, respectively

The oil and gas production of Pakistan witnessed a decline of 10% and 7% YoY during 1HFY25. The contraction in hydrocarbon production comes on the back of forced curtailments at Nashpa and the TAL block amid lower gas demand. Major oil fields such as Nashpa, Makori East, Pasakhi, Maramzai, Mardenkhel, Rajian, and Dhok Sultan experienced a decline in production during 1HFY25. Meanwhile, Mamikhel South, Sono, and Bettani reported healthy growth during the period. In terms of gas production, major fields such as Mari, Qadirpur, Sui, Sharf, Kandhkot, Nashpa, and Sutiari Deep registered a decrease in production. On a quarterly basis, oil and gas production in Pakistan dwindled by 12% and 7% YoY, respectively, in 2QFY25.

Drilling Activity

During 1HFY25, a total of 11 exploratory wells and 15 appraisal/development wells were spudded, against a target of 27 exploratory wells and 40 appraisal/development wells.

Discoveries

The exploration efforts of Pakistani E&P companies yielded 15 discoveries during 1HFY25, with a cumulative discovery size of approximately ~2,075 bopd of oil and ~215 mmcfd of gas.

Result Previews:

POL: Net profit to settle at PKR 35.70/share in 1HFY25

Pakistan Oilfields Limited is scheduled to announce its financial results for the period 1HFY25 on 27th Jan'25, during which we expect the company to post a profit after tax of PKR 10,134mn (EPS: PKR 35.70), reflecting a massive decline of 42% YoY. The decrease in the bottomline comes amid i) hefty exploration cost booked in 1QFY25 given higher cost of dry well Balkassar Deep 1A, ii) a 14% YoY decline in average realized oil prices, and iii) a 3.3% YoY appreciation of the Pak Rupee against the greenback. During 2QFY25, profitability is expected to reach PKR 7,566mn (EPS: PKR 26.65), depicting a drop of 4% YoY. The decline in earnings is attributed to i) 17% YoY fall in average realized oil prices and ii) 4% and 14% YoY reduction in oil and gas production, respectively. Moreover, we anticipate exploration costs to increase by 70% YoY due to higher seismic activity during the period. Alongside the results, the company is projected to announce an interim cash dividend of PKR 17.00/share for 2QFY25 (PKR 25.00/share in 2QFY24).

MARI: Profitability to arrive at PKR 30.32/share in 1HFY25

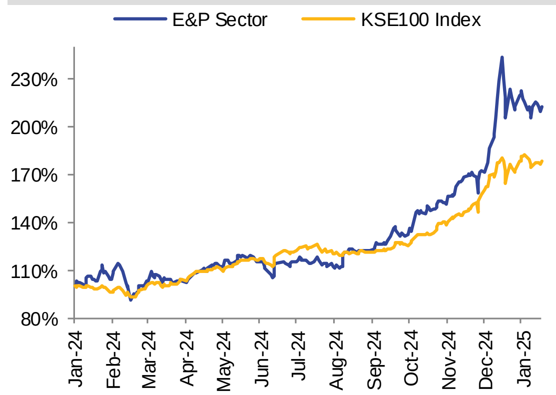
Mari Energies Limited (MARI) is expected to announce its financial results for 1HFY25 on 27th Jan'25. We anticipate earnings to reach PKR 36,409mn (EPS: PKR 30.32) in 1HFY25, compared to PKR 37,505mn (EPS: PKR 31.24) in 1HFY24, marking a 3% YoY decline. This reduction in profitability is owed to i) 5% YoY decrease in the wellhead price of the Mari gas field, ii) higher exploration costs during the period, and iii) appreciation of the PKR against USD. On a quarterly basis, net profit for 2QFY25 is projected to decline by 6% YoY, amounting to PKR 17,208mn (EPS: PKR 14.33). This drop is driven by i) imposition of an incremental royalty on the wellhead value of the Mari D&P Lease from Nov'24, ii) 5% YoY decrease in oil production, and iii) lower wellhead price of the Mari Gas Field. Exploration costs are expected to significantly climb up by 2x YoY to PKR 2,997mn in 2QFY25 on the back of higher cost of dry well (Zarghun South-5) during the quarter. Additionally, we anticipate the company to declare an interim cash dividend of PKR 10.00/share for 2QFY25 (PKR 10.89/share in 2QFY24).

AHL E&P Universe

	1HFY25	1HFY24	YoY
Oil Production (BOPD)			
OGDC	31,538	32,984	-4%
PPL	10,686	11,704	-9%
POL	4,599	4,853	-5%
MARI	1,166	1,195	-2%
Gas Production (MMCFD)			
OGDC	656	716	-8%
PPL	508	533	-5%
POL	58	63	-9%
MARI	838	808	4%
	2QFY25	**2QFY24**	**YoY**
Oil Production (BOPD)			
OGDC	31,307	33,133	-6%
PPL	10,645	11,750	-9%
POL	4,613	4,812	-4%
MARI	1,166	1,223	-8%
Gas Production (MMCFD)			
OGDC	613	670	-9%
PPL	513	491	4%
POL	55	64	-14%
MARI	867	798	26%

Source (s): PPIS, AHL Research

Relative Performance



Source (s): PSX, AHL Research

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OGDC: Earnings of PKR 19.11/share expected during 1HFY25

Oil & Gas Development Company Limited (OGDC) is expected to announce its financial results for 1HFY25 in the coming days, where we project earnings of PKR 82,201mn (EPS: PKR 19.11), depicting a descend of 33% YoY. The decrease in earnings is anticipated on account of i) 4% and 8% YoY reduction in oil and gas production, respectively, ii) 12% YoY decline in oil prices, and iii) depreciation of the USD against the PKR. On a quarterly basis, the net profit is estimated to clock in at PKR 41,181mn (EPS: PKR 9.57) in 2QFY25, compared to PKR 74,258mn (EPS: PKR 17.27) in 2QFY24, representing a 45% YoY decline. This reduction in profitability is primarily due to the reversal of the provision for depletion allowance in 2QFY24 coupled with 6% and 9% YoY decline in oil and gas production, respectively. Exploration costs are projected to surge by 2x YoY, reaching PKR 5,024mn in 2QFY25 amid dry well (Kandewaro-1) incurred during the quarter compared to no dry well in SPLY. Alongside the result, we expect the company to announce a cash dividend of PKR 5.00/share, bringing the total dividend for 1HFY25 to PKR 8.00/share.

PPL: Bottom line to clock in at PKR 17.04/share during 1HFY25

In the financial results for 1HFY25, Pakistan Petroleum Limited (PPL) is expected to report a net profit of PKR 46,359mn (EPS: PKR 17.04), compared to PKR 68,777mn (EPS: PKR 25.28) in 1HFY24, down 33% YoY. The decline in earnings is comes on the back of i) 9% and 5% YoY contraction in oil and gas production, respectively, ii) lower oil prices, and iii) 1% YoY dip in the wellhead price of Sui. During 2QFY25, profitability is expected to drop by 42% YoY, amounting to PKR 22,782mn (EPS: PKR 8.37). This decline is majorly due to a hefty tax reversal in 2QFY24, followed by 9% YoY reduction in oil production, and strengthening of the PKR against the USD. However, gas production increased by 4% YoY. Exploration expenses are projected to decrease by 56% YoY in 2QFY25, driven by the lower cost of the dry well (Durug X-1) reported during the quarter. In addition to the result, we expect the company to announce a cash dividend of PKR 3.00/share (PKR 5.00/share in 1HFY25).

Exhibit: Earnings Forecast of E&P universe

	1HFY25e	1HFY24a	YoY	2QFY25e	2QFY24a	YoY	1QFY25a	QoQ
OGDC	19.11	28.67	-33%	9.57	17.27	-45%	9.54	0%
PPL	17.04	25.28	-33%	8.37	14.39	-42%	8.67	-3%
MARI	30.32	31.24	-3%	14.33	15.29	-6%	15.99	-10%
POL	35.70	61.93	-42%	26.65	27.73	-4%	9.05	13x

Source (s): Company Financials, AHL Research

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than 0% from last closing of market price(s)

Equity Valuation Methodology

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

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk