

KSE-100 E&P sector's profitability

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Record-high half yearly dividend

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Oil and Gas Exploration Sector

1HFY25: Record-high dividend

- The E&P Sector (KSE-100) announced the highest ever half yearly **dividend** of PKR 48bn in 1HFY25, which is up by 8% YoY.
- However, in terms of **profitability**, sector depicted a 30% YoY decline during 1HFY25, reaching PKR 173.9bn compared to PKR 247.2bn in SPLY.
- **Sales for the sector's** companies contracted by 12% YoY to PKR 450.3bn in 1HFY25. The revenue decline is attributed to i) a 12% YoY reduction in oil prices, ii) a 3% YoY appreciation of the Pak Rupee against greenback, and iii) a 6% and 5% YoY decline in oil and gas production, respectively, due to forced curtailment at major fields amid lower demand.
- In addition to this, the **wellhead gas price** of Sui and Mari Gas field declined by 1% and 5% YoY, respectively in 1HFY25.
- **Exploration cost** for the sector augmented by 65% YoY in 1HFY25, mainly due to higher cost of dry wells reported during the period.
- **Other income** of the sector swelled up by 61% YoY. The surge in other income is driven by i) jump in income from cash and cash balances, ii) hefty insurance claims related to stores and spares written off last year following a fire incident at the gas processing facility in the TAL block (booked by PPL and POL), iii) hefty late payment surcharge recorded by OGDC, and iv) reversal of impairment loss on investment in Block-8 in Iraq registered by PPL.
- **Effective taxation** of the sector stood at 41% in 1HFY25 compared to 26% in 1HFY24. To recall, Supreme Court announced a favourable verdict related to depletion allowance in 2QFY24, due to which OGDC and PPL booked tax reversals of PKR 28bn and PKR 14bn, respectively. Meanwhile, POL and MARI booked the tax reversals in 3QFY24.

Exhibit: Financial Highlights

(PKR mn)	1HFY25	1HFY24	YoY	2QFY25	2QFY24	YoY	1QFY25	QoQ
Income statement								
Net Revenue	450,255	512,921	-12%	217,319	250,445	-13%	232,936	-7%
Cost of Sales	172,736	174,097	-1%	88,230	88,815	-1%	84,506	4%
Gross Profit	277,519	338,825	-18%	129,089	161,629	-20%	148,430	-13%
Admin Exp	26,649	31,079	-14%	12,195	15,476	-21%	14,454	-16%
Distribution Exp	29,671	18,004	65%	13,563	10,864	25%	16,108	-16%
Other income	70,342	43,691	61%	34,355	18,674	84%	35,986	-5%
Finance Cost	1,997	3,184	-37%	1,414	1,579	-10%	583	142%
PBT	292,537	334,697	-13%	136,847	154,925	-12%	155,690	-12%
Tax	118,629	87,541	36%	49,333	15,284	223%	69,296	-29%
PAT	173,908	247,156	-30%	87,514	139,640	-37%	86,394	1%
Ratio Analysis								
Gross Margins	61.6%	66.1%		59.4%	64.5%		63.7%	
Net Margins	38.6%	48.2%		40.3%	55.8%		37.1%	
Effective Tax	40.6%	26.2%		36.0%	9.9%		44.5%	

Source (s): Company Financials, AHL Research, ^KSE100

Oil and Gas Exploration Sector

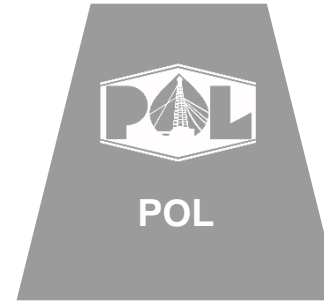
1HFY25: Sector (KSE100) profitability contracted by 30% YoY



- OGDC's bottom-line plunged by 33% YoY, settling at PKR 19.17/share in 1HFY25, owed to reversal of provision for depletion allowance in SPYL.
- Exploration costs swelled up 57% YoY, amid incurrence of dry wells (Kandewaro-1 & TAY NE).
- Other income up 71% YoY, given higher interest income and late payment surcharge income.



- PPL's earnings arrived at PKR 18.71/share, contracting by 26% YoY, which is majorly due to a hefty tax reversal in 1HFY24.
- The exploration expenses dwindled by 22% YoY which is due to low cost of dry wells (Durg X-1 & Rizq-5).
- Other income swelled up by 97% YoY in 1HFY25 given reversal of impairment loss on investment in Block-8 in Iraq and insurance claim.



- POL posted a profit after tax of PKR 35.73 in 1HFY25, down 42% YoY.
- The exploration cost surged by 7x YoY in 1HFY25 on account of higher cost of dry well Balkassar Deep 1A.
- The other income witnessed a massive jump of 61% YoY, owing to an insurance claim related to stores and spares written off last year and hefty dividend on investments.



- MARI's profitability declined 19% YoY, which is majorly due to i) imposition of additional 15% royalty charged on sales from the Mari field, and ii) higher depreciation and amortization expense due to expansion of production facilities, leading to surge in operating cost.
- The exploration cost augmented by 106% YoY due to incurrence of dry well Zarghun South-5 and higher prospecting expenditure.

Outlook:

- The cash position of E&P companies, particularly OGDC and PPL, is expected to remain strong due to an improved receivable collection rate. As a result, both companies are likely to announce their highest-ever dividend in FY25.
- If the government divests a portion of its stake in the Reko Diq project, OGDC and PPL are poised to be the primary beneficiaries.
- As of Dec'24, OGDC and PPL have outstanding receivables of PKR 542bn and PKR 559bn, respectively, from Sui companies. In case of settlement of pending circular debt, both companies could announce a substantial one-time dividend payout, we view.
- Additionally, the drilling of an exploratory well at Abu Dhabi Block 5 has been completed and is currently under evaluation. A significant hydrocarbon discovery could substantially boost sales and earnings for OGDC, PPL, and MARI.
- Our top picks are OGDC and PPL.

Exhibit: Financial Highlights

(PKR mn)	1HFY25	1HFY24	YoY	2QFY25	2QFY24	YoY	1QFY25	QoQ
MARI	30,396	37,505	-19%	11,168	18,361	-39%	19,228	-42%
POL	10,142	17,579	-42%	7,573	7,871	-4%	2,569	195%
PPL	50,914	68,777	-26%	27,336	39,150	-30%	23,578	16%
OGDC	82,457	123,296	-33%	41,437	74,258	-44%	41,020	1%
Total^	173,908	247,156	-30%	87,514	139,640	-37%	86,394	1%

Source (s): Company Financials, AHL Research, ^KSE100

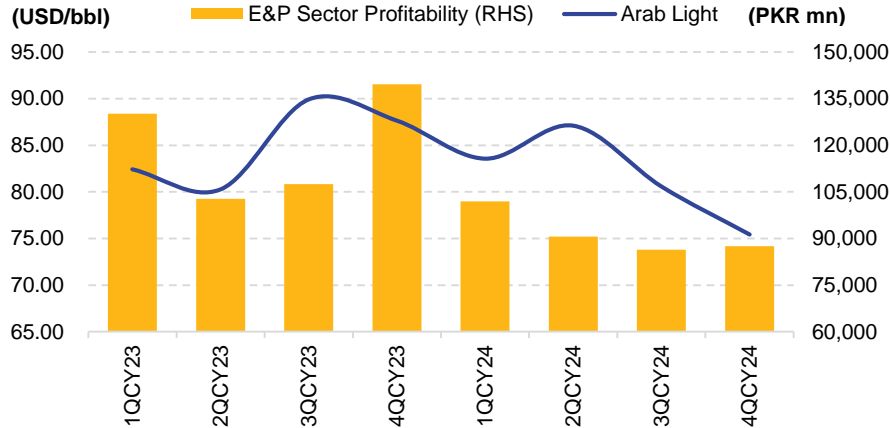
Exhibit: Oil and Gas production during the period

	1HFY25	1HFY24	YoY	2QFY25	2QFY24	YoY	1QFY25	QoQ
Oil Production (BOPD)								
OGDC	31,477	32,984	-4.6%	31,186	33,133	-5.9%	31,768	-1.8%
PPL	10,460	11,704	-10.6%	10,192	11,750	-13.3%	10,728	-5.0%
POL	4,580	4,853	-5.6%	4,575	4,812	-4.9%	4,584	-0.2%
MARI	1,228	1,194	2.8%	1,228	1,220	0.7%	1,226	0.2%
Gas Production (MMCFD)								
OGDC	672	716	-6.1%	675	670	0.7%	669	0.9%
PPL	485	533	-8.9%	468	491	-4.7%	503	-6.9%
POL	58	63	-8.7%	55	64	-13.6%	61	-9.7%
MARI	797	808	-1.4%	785	799	-1.8%	809	-2.9%

Source (s); PPIS, Company Financials, AHL Research

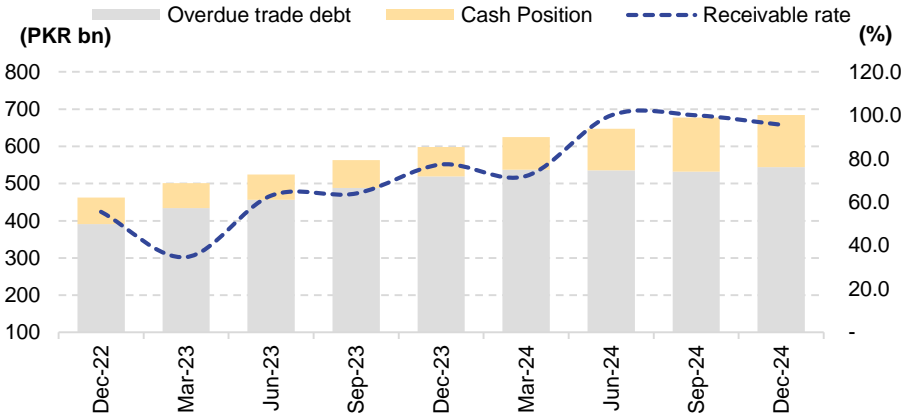
Oil and Gas Exploration Sector Sector (KSE100) at a glance

Exhibit: Sector Profitability in relation to Oil Price (Arab Light)



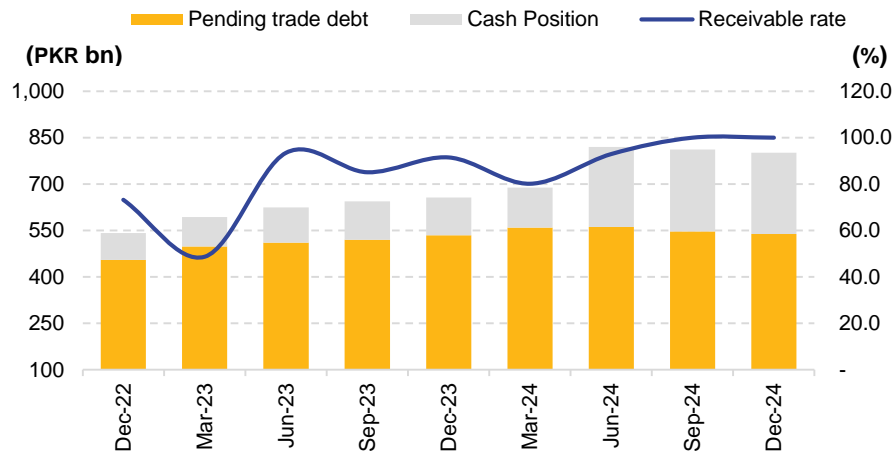
Source (s): Company Financials, Bloomberg, AHL Research

Exhibit: Pending trade debt in relation to receivable collection rate



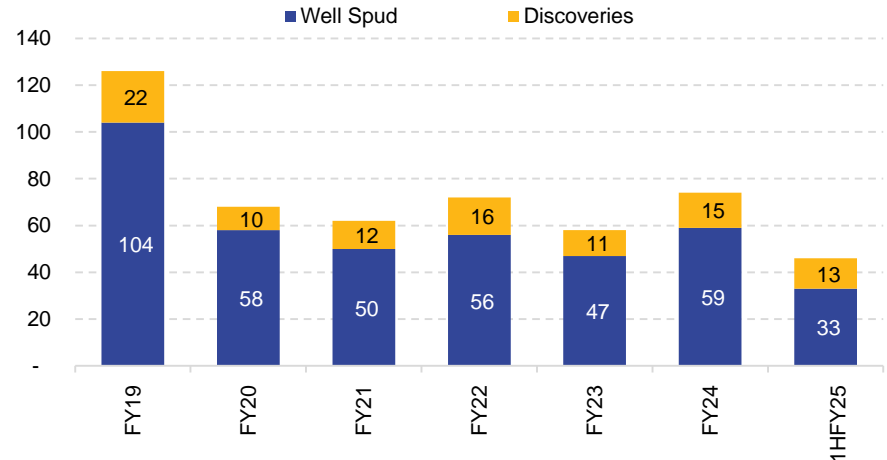
Source (s): Company Financials, AHL Research

Exhibit: OGDC's pending trade debt in relation to receivable collection rate



Source (s): Company Financials, AHL Research

Exhibit: Drilling Activity of local E&P companies and discoveries



Source (s): Company Financials, AHL Research

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

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