Oil in the grove….OGDC preferred

After a spate of continuous decline in oil prices given supply exceeding demand, OPEC representatives have reached a milestone deal to cut the production. An upward movement can be seen in the international oil prices.

Wherein now we believe…

- The oil and gas exploration companies will be the main beneficiary of this surge given their realizable prices may beefed up
- This deal will resume confidence E&P producers in the country especially OGDC since it is continuously increasing its daily oil production

Premise…

The Organization of the Petroleum Exporting Countries (OPEC) agreed for the first production cut in 8 years. This was a result after the disagreements ended between the group's three biggest producers namely Saudi Arabia, Iraq and Iran. These countries were previously reluctant to cut the production to avoid reduction in the market share. One Non-OPEC country Russia will also be cutting down the output.

The reduction in the output will be applicable January onwards. See chart on right to see reduction agreed by individual members of OPEC.

OPEC nations have agreed to reduce production by 1.2m barrels per day to 32.5m barrels per day (-3.5%). Following this cut, oil prices shot up by massive 12%. All of its members will benefit from the increased prices and we expect some easing off recessionary trends, going forward.

Future with respect to our very own OGDC…

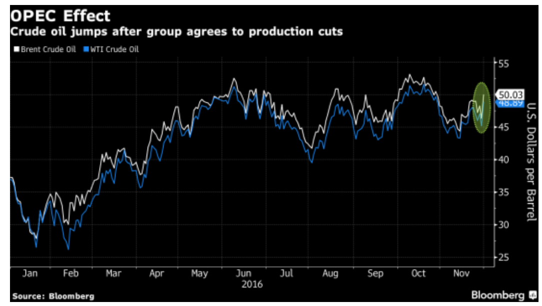
Following the international decline of oil prices from $100 to $40, the E&Ps listed in PSX earnings dropped considerably except Mari Petroleum. Among listed E&Ps, OGDC is continuously increasing its production and reached a milestone of nearly 51k barrels of oil per day recently. Company is also starting to drill abundant fields in Baluchistan, which is a good omen. Among others we do not find growth story, as far as the production profile is concerned.

Mardankhel from Tal Block is another success story where oil flow may increase, as per newspaper reports. OGDC has 30% stakes in Tal Block, where MOL is main operator. Apart from that, OGDC continue to derive growth from KPD-TAY in Sindh.

OGDC yield FY17 PE of 10x (if current oil prices are taken as proxy; alongside interest income on bond portfolio). The oil price surge will benefit the Pakistani giant in the longer run.

WTI @ **49.92**
Brent Oil @ **52.41**

OGDC **@146.95**



Source Bloomberg

Agreed crude oil production adjustments and levels* *(tb/d)*

Member Country	Reference Production level	Adjustment	Production level effective January 2017
Algeria	1,089	–50	1,039
Angola	1,753	–80	1,673
Ecuador	548	–26	522
Gabon	202	–9	193
Indonesia**			
IR Iran	3,975	90	3,797
Iraq	4,561	–210	4,351
Kuwait	2,838	–131	2,707
Libya			
Nigeria			
Qatar	648	–30	618
Saudi Arabia	10,544	–486	10,058
UAE	3,013	–139	2,874
Venezuela	2,067	–95	1,972

* *Reference base to crude oil production adjustment is October 2016 levels, except Angola for which September 2016 is used, and the numbers are from Secondary Sources, which do not represent a quota for each Member Country.*

** *Indonesia suspended its membership.*

Source www.vox.com

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