

Tuesday, September 08, 2015 | special comment

MOL – MOL Downgrades Akri-Bijeel Block Potential

Rating: buy | target price: HUF 18,932 | current price: HUF 13,385

MOL PW; MOLB.WA | Gas & Oil, Hungary

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MOL announced today that in light of recent well test results it has had to significantly reduce the recoverable resource potential of the Akri-Bijeel block in Kurdistan from 80 to just 4 million barrels. As a result investment in the block through the remainder of 2015 has been cut below US\$ 10m. In the medium term daily production from Akri-Bijeel-1 is expected to be maintained at the current 2,200 boe, with potential to tie in the second well (Bijeel-2) subject to regular payments from the Kurdish government. The carrying value of Akri-Bijeel to date was \$440m, set to be revised downward in Q3 2015 in an amount which we think will essentially be a complete write down. MOL had warned of downward reserve revision risks for Akri-Bijeel in recent weeks however the scale of the potential charges is a negative surprise. From the

point of view of future cash flow the impact will be limited thanks to the following: 1) incurred capex is included in current net debt, 2) our forecasts are based on conservative production assumptions for the Kurdish blocks so the downward adjustments to 2016-18 expectations will not exceed 4-5mboepd, 3) at the current oil price and given the structure of the PSA the annual cash flow from the cut Akri-Bijeel production is only \$15-20m, 4) the market was skeptical about the Kurdish project NPV due to issues with payments, 5) the reduced Akri-Bijeel potential means less capital investment in the future (with the H1 2015 total at ca. \$70m), 6) the lower quantities of Kurdish oil will be partly offset by higher production in Europe. Summing up we stand by our bullish outlook for MOL.

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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