

Pakistan Petroleum Limited
Result Review

PSX: PPL Bloomberg: PPL: PA Reuters: PPL.KA

Pakistan Research

PPL: 2QFY23 EPS clocked in at PKR 8.15, up 55% YoY, DPS at PKR 1.0

- PPL announced its 2QFY23 financial results today, wherein the company reported consolidated EPS of PKR 8.15, up 55% YoY. The increase in earnings is attributable to 10% YoY higher crude oil price and 22% YoY PKR devaluation. The result came in lower than our expectation primarily due to higher exploration cost and lower other income. This takes 1HFY23 consolidated earnings to PKR 17.8/share, up 56% YoY. Along with the result, company announced an interim cash dividend of PKR 1.0/share.
- Net sales grew by 40% YoY to PKR 65.3bn during 2Q, mainly on account of higher oil and gas prices and PKR devaluation. Moreover, likely increase in gas production from Kandhkot field also supported the topline.
- Exploration expenditure went up by 86% YoY to PKR 7.8bn, as against PKR 4.2bn in SPLY, mainly due to higher cost of dry wells.
- Other income declined by 29% YoY to PKR 1.9b. This is mainly due to the absence of exchange gains booked during the period.
- Sequentially, earnings decreased by 16% QoQ, primarily due to 3.5x higher exploration cost and 60% lower other income.
- We have a 'BUY' stance on PPL. Our Dec-23 price target (PT) of PKR 162/share provides an upside of 143%, along with a dividend yield of 5.3%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	162
Current Price (PKR)	67
Upside/(Downside) (%)	+ 143%
Dividend Yield (%)	5.3%
Total Return (%)	+ 148%
12-month High (PKR)	89
12-month Low (PKR)	50
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	181,326
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Revenue	46,823	65,377	40%	90,419	138,197	53%
Field Expenditures	9,533	12,231	28%	19,965	23,843	19%
Royalties	6,942	10,432	50%	13,379	23,005	72%
Gross Profit	30,348	42,714	41%	57,075	91,349	60%
Exploration Expenditure	4,185	7,792	86%	9,042	9,536	5%
Other Income	2,735	1,951	-29%	7,279	6,769	-7%
Other Charges	3,536	3,512	-1%	5,648	8,042	42%
Finance Costs	312	383	23%	608	735	21%
Profit Before Tax	21,614	32,261	49%	44,780	77,848	74%
Taxation	7,335	10,092	38%	13,641	29,349	115%
Profit After Tax	14,279	22,169	55%	31,139	48,499	56%
EPS	5.2	8.1	55%	11.4	17.8	56%
DPS	1.5	1.0		1.5	1.0	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	35.2	40.0	33.4
EPS Growth	-16.9%	5.8%	4.0%	76.2%	13.6%	-16%
DPS	1.0	3.5	2.0	3.5	4.0	3.5
PER	3.7	3.5	3.3	1.9	1.7	2.0
Dividend Yield	1.5%	5.3%	3.0%	5.3%	6.0%	5.3%
EV/EBITDA	1.3	1.0	0.9	0.2	0.2	0.1
P/B	0.5	0.5	0.4	0.3	0.3	0.3
ROE	15.4%	14.3%	13.2%	20.0%	19.1%	13.8%

Source: Company Financials, Akseer Research

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Valuation Basis

Our PT for Pakistan Petroleum Limited (PPL) has been computed using reserve based Free cash flow to equity (FCFE) method. We have used a risk free rate of 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Dec-23 price target (PT) of PKR 162/share provides an upside of 143% along with a dividend yield of 5.3%. Our investment case on PPL is based on (1) higher international oil prices (2) PKR devaluation and, (3) incremental production from new discoveries.

Risks

Key downside risks to our investment thesis include (1) decrease in oil prices (2) delay in development of discoveries (3) low success ratio of drilling activities (4) lower than estimated life of main reserves.

Company Description

Pakistan Petroleum Limited, together with its subsidiaries, engages in the exploration, prospecting, development, and production of oil and natural gas resources in Pakistan, Iraq, and Yemen. It produces natural gas, crude oil, natural gas liquids (NGLs), and liquefied petroleum gas (LPG). The company operates several producing fields located in Sui, Kandhkot, Adhi, Mazarani, Chachar, Adam, Adam West, and Kinza regions.

Financial Highlights - PPL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	157,999	149,279	203,811	247,851	255,565	231,208
Field Expenditures	43,082	40,776	40,756	43,389	40,855	42,211
Royalties	23,842	22,228	31,018	39,947	40,757	35,811
Gross Profit	91,076	86,275	132,037	164,515	173,953	153,186
Operating Profit	70,039	71,856	102,580	144,366	150,552	127,525
Other income	6,583	4,080	14,190	20,079	28,362	21,728
Other charges	5,866	7,043	13,929	16,451	8,698	7,659
Finance cost	1,113	1,147	1,297	960	989	1,020
Profit before tax	69,643	68,438	98,937	147,034	169,227	140,573
Taxation	20,218	16,155	44,585	51,240	60,402	49,697
Profit after tax	49,425	52,283	54,353	95,795	108,825	90,877

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	159,915	147,403	139,578	131,135	127,267	127,696
Other LT assets	431	4,466	36,467	36,644	36,743	36,844
Non-Current Assets	160,346	151,869	176,045	167,780	164,009	164,540
Current assets	335,084	385,639	452,634	532,898	621,243	694,689
Total Assets	495,430	537,508	628,679	700,678	785,252	859,229
Non-Current liabilities	67,432	60,231	65,305	67,331	69,421	71,580
Current liabilities	84,689	88,345	128,670	112,371	96,914	87,380
Total Liabilities	152,121	148,576	193,974	179,702	166,336	158,959
Equity	343,308	388,932	434,704	520,976	618,917	700,270
Total Equity & liabilities	495,430	537,508	628,679	700,678	785,252	859,229

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	95,795	108,825	90,877
Non-cash Charges	21,336	18,247	17,308	15,836	15,079	14,868
Operating Cash flows	20,559	44,341	879	85,228	28,895	53,480
FCFF	1,635	39,881	(7,208)	78,876	18,697	39,209
Net borrowings	-	-	-	-	-	-
FCFE	523	38,734	(8,506)	77,916	17,707	38,189
Net change in cash	(3,798)	32,075	(17,086)	68,393	6,823	28,666
Closing cash	6,525	4,751	5,427	70,338	72,043	93,668

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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