

Pakistan Petroleum Limited
Result Preview

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

Pakistan Research

3QFY22 earnings to clock in at PKR 7.3/share, up 66% YoY

- PPL's board meeting is scheduled on April 27, 2022 to consider 3QFY22 financial results where we expect the company to post an EPS of PKR 7.3, up 66% YoY. The increase in earnings can mainly be attributed to 66% YoY higher international crude oil prices (averaging at USD 100/bbl) and 11% YoY PKR devaluation (averaging at PKR 177/USD). This will take 9MFY22 earnings to PKR 18.7/share, up 34% YoY.
- Net sales are likely to clock in at PKR 49.3bn, up 34% YoY. Despite significant increase in oil price and PKR devaluation, revenue growth will remain restricted owing to 9% and 8% YoY decline in PPL's oil and gas production, respectively. Oil production decline came from TAL block (-11% YoY), Adhi field (-23% YoY) and Nashpa field (-19% YoY). Similarly, lower gas production was due to Sui field (-6% YoY), TAL block (-10% YoY), Qadirpur field (-14% YoY) and Kandhkot field (-25% YoY).
- Exploration expenditure is expected to go up by 2.4x YoY to PKR 2.1bn, as against PKR 602mn in SPLY mainly due to low base effect.
- Other income is likely to see an increase of 57% YoY to PKR 1.7bn owing to exchange gains on foreign currency booked during the quarter.
- Effective tax rate is expected at 29% during 3Q as against 28% in SPLY, which will contain the bottomline growth.
- On a sequential basis, PPL's earnings are expected to grow by 39% QoQ. Higher oil price (+25% QoQ) and currency devaluation (-2% QoQ) during 3Q will more than compensate for 5% and 4% QoQ decline in oil and gas production, respectively.
- We have a 'BUY' stance on PPL. Our Dec-22 price target (PT) of PKR 169/share provides an upside of 122% along with a dividend yield of 7.2%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	169
Current Price (PKR)	76
Upside/(Downside) (%)	+ 122%
Dividend Yield (%)	7.2%
Total Return (%)	+ 129%
12-month High (PKR)	95
12-month Low (PKR)	69
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	207,176
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Net Revenue	36,906	49,347	34%	112,718	139,766	24%
Field Expenditures	10,709	9,463	-12%	32,897	29,428	-11%
Royalties	5,361	7,223	35%	16,756	20,602	23%
Gross Profit	20,836	32,662	57%	63,065	89,737	42%
Exploration Expenditure	602	2,050	241%	3,872	11,092	186%
Other Income	1,051	1,652	57%	2,927	8,931	205%
Other Charges	3,309	2,958	-11%	7,200	8,606	20%
Finance Costs	282	212	-25%	885	821	-7%
Profit Before Tax	16,771	28,031	67%	51,323	72,811	42%
Taxation	4,757	8,129	71%	13,204	21,770	65%
Profit After Tax	12,014	19,902	66%	38,119	51,041	34%
EPS	4.4	7.3	66%	14.01	18.76	34%
DPS	0.00	0.00		1.50	1.50	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	26.7	30.1	26.6
EPS Growth	29.8%	-16.9%	5.8%	39.2%	12.5%	-11.7%
DPS	1.7	1.0	3.5	5.5	9.0	8.0
PER	3.5	4.2	4.0	2.8	2.5	2.9
Dividend Yield	2.2%	1.3%	4.6%	7.2%	11.8%	10.5%
EV/EBITDA	1.1	1.6	1.3	0.8	0.4	0.1
P/B	0.7	0.6	0.5	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	17.4%	17.2%	13.7%

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 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Dec-22 price target (PT) of PKR 169/share provides an upside of 122% along with a dividend yield of 7.2%. Our investment case on PPL is based on (1) higher international oil prices (2) PKR devaluation (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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	164,366	157,999	149,279	187,476	208,979	185,506
Field Expenditures	40,280	43,082	40,776	37,852	40,851	39,689
Royalties	24,375	23,842	22,228	28,890	31,548	27,702
Gross Profit	99,711	91,076	86,275	120,734	136,580	118,114
Operating Profit	70,099	70,039	71,856	103,089	118,923	101,724
Other income	15,679	6,583	4,080	11,012	5,213	7,208
Other charges	7,164	5,866	7,043	11,831	11,193	9,679
Finance cost	777	1,113	1,147	866	890	916
Profit before tax	77,837	69,643	68,438	98,980	112,052	98,337
Taxation	18,377	20,218	16,155	26,196	30,198	26,070
Profit after tax	59,459	49,425	52,283	72,785	81,854	72,267

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	161,073	159,915	147,403	141,064	134,999	129,194
Other LT assets	608	431	4,466	4,685	4,869	5,064
Non-Current Assets	161,680	160,346	151,869	145,749	139,868	134,258
Current assets	271,729	335,084	385,639	440,709	518,755	539,478
Total Assets	433,409	495,430	537,508	586,458	658,623	673,736
Non-Current liabilities	65,065	67,432	60,231	62,059	63,944	65,887
Current liabilities	70,140	84,689	88,345	77,648	90,562	53,233
Total Liabilities	135,205	152,121	148,576	139,707	154,506	119,120
Equity	298,204	343,308	388,932	446,751	504,117	554,616
Total Equity & liabilities	433,410	495,430	537,508	586,458	658,623	673,736

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	72,785	81,854	72,267
Non-cash Charges	21,008	21,336	18,247	18,836	17,986	17,193
Operating Cash flows	61,732	20,559	44,341	44,102	76,739	94,611
FCFF	35,722	1,635	39,881	32,579	65,762	84,165
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	31,713	64,872	83,249
Net change in cash	33,240	(3,798)	32,075	16,748	40,383	61,481
Closing cash	8,563	6,525	4,751	17,130	52,925	109,588

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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