

Pakistan Petroleum Limited
Result Preview

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

Pakistan Research

PPL: 3QFY23 EPS to clock in at PKR 10.3, up 38% YoY

- PPL's board meeting is scheduled on April 27, 2023 to consider 3QFY23 financial results, where we expect the company to post an EPS of PKR 10.3, up 38% YoY. The increase in earnings can mainly be attributed to 32% YoY PKR devaluation. This takes 9MFY23 earnings to PKR 28.1/share, up 49% YoY.
- Net sales are likely to clock in at PKR 67.6bn, up 32% YoY, mainly on account of higher gas prices and PKR devaluation. PPL's oil and gas production is likely to witness decline of 5% and 2% respectively owing to lower flows from Adhi, Nashpa fields and TAL block.
- Exploration expenditure is expected to increase by 1.8x YoY to PKR 4.6bn, as against PKR 1.6bn in SPLY, mainly due to low base effect.
- Other income is likely to go up by 50% YoY to PKR 4.7bn in 3Q. This is mainly due to exchange gains and higher interest rates.
- On sequential basis, earnings are expected to increase by 27% QoQ, primarily due to higher other income and lower exploration cost.
- We have a 'BUY' stance on PPL. Our Dec-23 price target (PT) of PKR 161/share provides an upside of 138%, along with a dividend yield of 5.2%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	161
Current Price (PKR)	67
Upside/(Downside) (%)	+ 138%
Dividend Yield (%)	+5.2%
Total Return (%)	143%
12-month High (PKR)	86
12-month Low (PKR)	50
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	183,422
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Net Revenue	51,090	67,635	32%	141,509	205,832	45%
Field Expenditures	9,688	10,354	7%	29,653	34,197	15%
Royalties	7,409	10,822	46%	20,788	33,827	63%
Gross Profit	33,993	46,460	37%	91,068	137,808	51%
Exploration Expenditure	1,644	4,591	179%	10,686	14,127	32%
Other Income	3,129	4,687	50%	10,407	11,456	10%
Other Charges	3,236	3,512	9%	8,885	11,554	30%
Finance Costs	324	396	22%	932	1,132	21%
Profit Before Tax	30,713	41,929	37%	75,493	119,777	59%
Taxation	10,326	13,837	34%	23,967	43,186	80%
Profit After Tax	20,387	28,092	38%	51,526	76,591	49%
EPS	7.5	10.3	38%	18.9	28.1	49%
DPS	0.0	0.0		1.5	1.0	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	36.0	40.0	33.5
EPS Growth	-16.9%	5.8%	4.0%	80.1%	11.1%	-16%
DPS	1.0	3.5	2.0	3.5	4.0	3.5
PER	3.7	3.5	3.4	1.9	1.7	2.0
Dividend Yield	1.5%	5.2%	3.0%	5.2%	5.9%	5.2%
EV/EBITDA	1.3	1.0	0.9	0.3	0.2	0.1
P/B	0.5	0.5	0.4	0.4	0.3	0.3
ROE	15.4%	14.3%	13.2%	20.4%	19.0%	13.8%

Source: Company Financials, Akseer Research

Aftab Awan
aftab.awan@alphacapital.com.pk

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 161/share provides an upside of 138% along with a dividend yield of 5.2%. 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	253,138	255,303	230,799
Field Expenditures	43,082	40,776	40,756	43,702	40,852	42,212
Royalties	23,842	22,228	31,018	40,591	40,510	35,553
Gross Profit	91,076	86,275	132,037	168,845	173,941	153,034
Operating Profit	70,039	71,856	102,580	148,227	150,546	127,372
Other income	6,583	4,080	14,190	19,585	28,094	22,126
Other charges	5,866	7,043	13,929	16,861	8,697	7,652
Finance cost	1,113	1,147	1,297	1,586	1,664	1,747
Profit before tax	69,643	68,438	98,937	149,128	168,278	140,099
Taxation	20,218	16,155	44,585	51,748	60,005	49,520
Profit after tax	49,425	52,283	54,353	97,380	108,273	90,579

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	36,647	36,742	36,844
Non-Current Assets	160,346	151,869	176,045	167,783	164,009	164,540
Current assets	335,084	385,639	452,634	535,579	623,444	697,251
Total Assets	495,430	537,508	628,679	703,363	787,453	861,792
Non-Current liabilities	67,432	60,231	65,305	67,894	70,592	73,404
Current liabilities	84,689	88,345	128,670	112,907	96,910	87,380
Total Liabilities	152,121	148,576	193,974	180,801	167,503	160,785
Equity	343,308	388,932	434,704	522,561	619,950	701,006
Total Equity & liabilities	495,430	537,508	628,679	703,363	787,453	861,7912

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	97,380	108,273	90,579
Non-cash Charges	21,336	18,247	17,308	15,836	15,079	14,868
Operating Cash flows	20,559	44,341	879	79,732	37,068	54,263
FCFF	1,635	39,881	(7,208)	74,006	27,545	40,719
Net borrowings	-	-	-	-	-	-
FCFE	523	38,734	(8,506)	72,420	25,880	38,972
Net change in cash	(3,798)	32,075	(17,086)	62,897	14,996	29,449
Closing cash	6,525	4,751	5,427	64,842	74,720	97,128

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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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alphacapital.com.pk