

PPL – 1QFY22 EPS to clock in at PKR 6.1, up 15% YoY

- PPL is scheduled to announce its 1QFY22 results on October 25, 2021. We expect the company to post an EPS of PKR 6.1, compared to an EPS of PKR 5.3 in SPLY, depicting a growth of 15% YoY.
- The company's topline is likely to increase 7% YoY to PKR 42.0bn compared to PKR 39.3bn in SPLY. Although, oil prices have surged 68% YoY (in PKR terms), the decline in oil and gas production is expected to restrict the topline growth.
- PPL's gas production witnessed decline of 10% YoY during the quarter where the major reduction came from Sui (natural decline), Kandhkot (low offtake from Genco), Adhi and Tal block. Similarly, oil production also witnessed a 10% YoY decline due to lower flows from Nashpa (ATA in August), Adhi and Tal block.
- Exploration expenditure is expected to increase by 5% YoY to PKR 2.4bn, as against PKR 2.3bn in the SPLY. Similarly, other charges are expected to go up by 4% YoY and settle at PKR 2.2bn.
- On sequential basis, earnings are expected to increase 16% QoQ, primarily due to higher international crude oil prices and PKR devaluation.
- Our Jun-21 price target (PT) of PKR 179/share provides an upside of 131% along with a dividend yield of 6.4%.
- We have a "BUY" stance on PPL which is trading at FY22 PE and PBV of 3.2x and 0.5x, respectively.

Key Data

PSX Ticker	PPL
Target Price (PKR)	179
Current Price (PKR)	78
Upside/(Downside) (%)	+ 131%
Dividend Yield (%)	6.4%
Total Return (%)	+ 137%
12-month High (PKR)	104
12-month Low (PKR)	71
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	210,931
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY21	1QFY22E	YoY
Net Revenue	39,318	42,034	7%
Field Expenditures	9,405	9,214	-2%
Royalties	5,954	5,959	0%
Gross Profit	23,959	26,860	12%
Exploration Expenditure	2,297	2,416	5%
Other Income	759	997	31%
Other Charges	2,137	2,228	4%
Finance Costs	304	230	-25%
Profit Before Tax	19,194	21,990	15%
Taxation	4,869	5,498	13%
Profit After Tax	14,325	16,493	15%
EPS	5.3	6.1	15%
DPS	0.00	0.00	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	24.6	25.4	22.9
EPS Growth	30%	-17%	6%	28%	3%	-10%
DPS	1.7	1.0	3.5	5.0	7.5	7.0
PER	3.5	4.3	4.0	3.2	3.1	3.4
Dividend Yield	2.1%	1.3%	4.5%	6.4%	9.7%	9.0%
EV/EBITDA	1.1	1.6	1.4	0.8	0.3	0.1
P/B	0.7	0.6	0.5	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	16.1%	14.8%	12.2%

Source: Company Financials, Akseer Research

Aftab Awan, ACCA

aftab.awan@akseerresearch.com

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 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Jun-21 price target (PT) of PKR 179/share provides an upside of 131% along with a dividend yield of 6.4%. 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	177,723	182,899	166,759
Field Expenditures	40,280	43,082	40,776	41,882	43,059	40,695
Royalties	24,375	23,842	22,228	27,088	27,331	25,110
Gross Profit	99,711	91,076	86,275	108,752	112,509	100,953
Operating Profit	70,099	70,039	71,856	95,113	96,918	84,679
Other income	15,679	6,583	4,080	4,533	6,273	7,993
Other charges	7,164	5,866	7,043	8,912	9,220	8,273
Finance cost	777	1,113	1,147	866	890	916
Profit before tax	77,837	69,643	68,438	89,868	93,081	83,483
Taxation	18,377	20,218	16,155	22,996	23,988	21,077
Profit after tax	59,459	49,425	52,283	66,872	69,093	62,406

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	161,073	159,915	147,403	141,064	140,567	140,090
Other LT assets	608	431	4,466	4,679	4,853	5,052
Non-Current Assets	161,680	160,346	151,869	145,743	145,420	145,143
Current assets	271,729	335,084	385,639	442,236	503,751	509,048
Total Assets	433,409	495,430	537,508	587,979	649,171	654,190
Non-Current liabilities	65,065	67,432	60,231	62,059	63,944	65,887
Current liabilities	70,140	84,689	88,345	83,722	94,343	54,059
Total Liabilities	135,205	152,121	148,576	145,781	158,286	119,947
Equity	298,204	343,308	388,932	442,199	490,884	534,244
Total Equity & liabilities	433,410	495,430	537,508	587,979	649,171	654,190

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	66,872	69,093	62,406
Non-cash Charges	21,008	21,336	18,247	18,836	18,348	18,263
Operating Cash flows	61,732	20,559	44,341	60,610	90,567	70,331
FCFF	35,722	1,635	39,881	49,086	73,660	53,486
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	48,221	72,770	52,570
Net change in cash	33,240	(3,798)	32,075	34,616	52,363	33,523
Closing cash	8,563	6,525	4,751	34,998	82,772	111,477

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

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@alfaadhi.net