

**Pakistan Petroleum Limited**  
Result Preview

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

Pakistan Research

**1QFY23 earnings expected at PKR 9.6/share**

- PPL's board meeting is scheduled on October 27, 2022 to consider 1QFY23 financial results where we expect the company to post an EPS of PKR 9.6, up 54% YoY. The increase in earnings can mainly be attributed to 43% YoY higher crude oil prices (averaging at USD 105/bbl) and 27% YoY PKR devaluation (PKR 225/USD).
- Net sales are likely to clock in at PKR 66.5bn, up 53% YoY mainly on account of higher oil and gas prices and PKR devaluation. Additionally, PPL's gas production is likely to increase during 1Q by 3% YoY owing to increased flows from Kandhkot field. On the contrary, oil production is expected to decline by 2% YoY due to lower flows from Adhi field and TAL block.
- Exploration expenditure is expected to decline by 13% YoY to PKR 4.2bn, as against PKR 4.9bn in SPLY, mainly due to lower cost of dry wells.
- On sequential basis, earnings are expected to increase by 8.2x QoQ, primarily due to low base effect as PPL booked huge tax expense (pertaining to super tax) and enormous exploration expense (related to 2 dry wells) in previous quarter.
- We have a 'BUY' stance on PPL. Our Jun-23 price target (PT) of PKR 150/share provides an upside of 164% along with a dividend yield of 6.2%.

**Key Data**

PSX Ticker	PPL
Target Price (PKR)	150
Current Price (PKR)	57
Upside/(Downside) (%)	+ 164%
Dividend Yield (%)	6.2%
Total Return (%)	+ 170%
12-month High (PKR)	89
12-month Low (PKR)	55
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	154,552
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	1QFY22	1QFY23E	YoY
Net Revenue	43,596	66,505	53%
Field Expenditures	10,432	11,147	7%
Royalties	6,437	10,641	65%
<b>Gross Profit</b>	<b>26,727</b>	<b>44,717</b>	<b>67%</b>
Exploration Expenditure	4,857	4,244	-13%
Other Income	4,544	3,383	-26%
Other Charges	2,112	2,480	17%
Finance Costs	296	219	-26%
<b>Profit Before Tax</b>	<b>23,166</b>	<b>39,882</b>	<b>72%</b>
Taxation	6,306	13,879	120%
<b>Profit After Tax</b>	<b>16,860</b>	<b>26,003</b>	<b>54%</b>
EPS	6.2	9.6	54%
DPS	-	-	

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	34.8	29.1	24.0
EPS Growth	-16.9%	5.8%	4.0%	74.0%	-16.3%	-17%
DPS	1.0	3.5	2.0	3.5	3.0	2.5
PER	3.1	3.0	2.8	1.6	2.0	2.4
Dividend Yield	1.8%	6.2%	3.5%	6.2%	5.3%	4.4%
EV/EBITDA	1.0	0.7	0.7	0.1	0.1	0.1
P/B	0.5	0.4	0.4	0.3	0.3	0.2
ROE	15.4%	14.3%	13.2%	19.8%	14.3%	10.5%

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have 'BUY' recommendation on PPL. Our Jun-23 price target (PT) of PKR 150/share provides an upside of 164% along with a dividend yield of 6.2%. 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	157,999	149,279	203,811	244,525	218,168	191,745
Field Expenditures	43,082	40,776	40,756	39,812	38,420	38,943
Royalties	23,842	22,228	31,018	39,364	34,451	29,537
<b>Gross Profit</b>	<b>91,076</b>	<b>86,275</b>	<b>132,037</b>	<b>165,349</b>	<b>145,297</b>	<b>123,265</b>
<b>Operating Profit</b>	<b>70,039</b>	<b>71,856</b>	<b>102,580</b>	<b>143,274</b>	<b>124,609</b>	<b>101,137</b>
Other income	6,583	4,080	14,190	11,277	5,108	6,519
Other charges	5,866	7,043	13,929	8,267	7,265	6,163
Finance cost	1,113	1,147	1,297	960	989	1,020
<b>Profit before tax</b>	<b>69,643</b>	<b>68,438</b>	<b>98,937</b>	<b>145,324</b>	<b>121,463</b>	<b>100,472</b>
Taxation	20,218	16,155	44,585	50,747	42,307	35,134
<b>Profit after tax</b>	<b>49,425</b>	<b>52,283</b>	<b>54,353</b>	<b>94,577</b>	<b>79,157</b>	<b>65,338</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	159,915	147,403	139,578	127,003	118,918	114,918
Other LT assets	431	4,466	36,467	36,642	36,720	36,820
Non-Current Assets	160,346	151,869	176,045	163,646	155,638	151,739
Current assets	335,084	385,639	452,634	529,691	592,685	642,034
<b>Total Assets</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>693,337</b>	<b>748,323</b>	<b>793,773</b>
Non-Current liabilities	67,432	60,231	65,305	67,331	69,421	71,580
Current liabilities	84,689	88,345	128,670	106,247	88,149	72,905
<b>Total Liabilities</b>	<b>152,121</b>	<b>148,576</b>	<b>193,974</b>	<b>173,578</b>	<b>157,571</b>	<b>144,484</b>
Equity	343,308	388,932	434,704	519,758	590,752	649,288
<b>Total Equity &amp; liabilities</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>693,337</b>	<b>748,323</b>	<b>793,773</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	94,577	79,157	65,338
Non-cash Charges	21,336	18,247	17,308	15,595	14,352	13,636
<b>Operating Cash flows</b>	<b>20,559</b>	<b>44,341</b>	<b>879</b>	<b>83,298</b>	<b>58,351</b>	<b>66,273</b>
<b>FCFF</b>	<b>1,635</b>	<b>39,881</b>	<b>(7,208)</b>	<b>81,319</b>	<b>53,096</b>	<b>57,662</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>523</b>	<b>38,734</b>	<b>(8,506)</b>	<b>80,359</b>	<b>52,107</b>	<b>56,642</b>
Net change in cash	(3,798)	32,075	(17,086)	70,836	43,944	49,840
<b>Closing cash</b>	<b>6,525</b>	<b>4,751</b>	<b>5,427</b>	<b>72,781</b>	<b>111,607</b>	<b>154,406</b>

Source: Company Accounts, Akseer Research

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