

**Pakistan Petroleum Limited**  
Result Preview

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

Pakistan Research

**2QFY22 earnings to clock in at PKR 6.2/share, up 44% YoY, DPS at PKR 2.0**

- PPL's board meeting is scheduled on February 25, 2022 to consider 2QFY22 financial results where we expect the company to post an EPS of PKR 6.2, up 44% YoY. The increase in earnings can mainly be attributed to 83% YoY higher international crude oil prices (averaging at USD 80/bbl) and 7.6% YoY PKR devaluation (averaging at PKR 174/USD). This will take 1HFY22 earnings to PKR 12.4/share, up 29% YoY. Along with the result, we expect the company to announce an interim cash dividend of PKR 2.0/share.
- Net sales are likely to clock in at PKR 43.6bn, up 20% YoY. Despite significant increase in oil price and PKR devaluation, revenue growth will remain restricted owing to 13% and 9% YoY decline in PPL's oil and gas production, respectively. Oil production decline came from TAL block (-13% YoY), Adhi field (-21% YoY due to ATA in October) and Nashpa field (-13% YoY). Similarly, lower gas production was due to Sui field (-6% YoY), TAL block (-9% YoY), Qadirpur field (-10% YoY) and Kandhkot field (-41% YoY due to low off-take from GTPS).
- Exploration expenditure is expected to go up by 78% YoY to PKR 1.7bn, as against PKR 973mn in SPLY. PPL encountered a dry well in Gambat South block during 2Q.
- Other income is likely to see an increase of 3.3x YoY to PKR 4.8bn owing to exchange gains on foreign currency booked during the quarter.
- Effective tax rate is expected at 29% during 2Q as against 23% in SPLY, which will contain the bottomline growth.
- On a sequential basis, PPL's earnings are expected to remain flat. Higher oil price (+8% QoQ) and currency devaluation (-5.5% QoQ) during 2Q is likely to be offset by 2% and 3% QoQ decline in oil and gas production, respectively.
- We have a 'BUY' stance on PPL. Our Dec-22 price target (PT) of PKR 156/share provides an upside of 92% along with a dividend yield of 6.2%.

**Key Data**

PSX Ticker	PPL
Target Price (PKR)	156
Current Price (PKR)	81
Upside/(Downside) (%)	+ 92%
Dividend Yield (%)	6.2%
Total Return (%)	+ 98%
12-month High (PKR)	95
12-month Low (PKR)	69
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	221,216
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Net Revenue	36,494	43,631	20%	75,812	87,227	15%
Field Expenditures	12,783	10,461	-18%	22,188	20,893	-6%
Royalties	5,441	6,774	24%	11,395	13,211	16%
<b>Gross Profit</b>	<b>18,269</b>	<b>26,396</b>	<b>44%</b>	<b>42,229</b>	<b>53,123</b>	<b>26%</b>
Exploration Expenditure	973	1,729	78%	3,270	6,586	101%
Other Income	1,118	4,836	333%	1,876	9,380	400%
Other Charges	1,754	2,185	25%	3,891	4,297	10%
Finance Costs	299	226	-25%	603	522	-14%
<b>Profit Before Tax</b>	<b>15,359</b>	<b>23,829</b>	<b>55%</b>	<b>34,552</b>	<b>46,995</b>	<b>36%</b>
Taxation	3,578	6,910	93%	8,447	13,217	56%
<b>Profit After Tax</b>	<b>11,780</b>	<b>16,919</b>	<b>44%</b>	<b>26,105</b>	<b>33,778</b>	<b>29%</b>
EPS	4.3	6.2	44%	9.59	12.41	29%
DPS	1.50	2.00		1.50	2.00	

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	25.8	25.6	24.6
EPS Growth	29.8%	-16.9%	5.8%	34.1%	-0.6%	-3.9%
DPS	1.7	1.0	3.5	5.0	7.5	7.5
PER	3.7	4.5	4.2	3.2	3.2	3.3
Dividend Yield	2.1%	1.2%	4.3%	6.2%	9.2%	9.2%
EV/EBITDA	1.2	1.8	1.5	0.8	0.3	0.1
P/B	0.7	0.6	0.6	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	16.8%	14.8%	12.9%

Source: Company Financials, Akseer Research

Aftab Awan

[aftab.awan@akseerresearch.com](mailto: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 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 156/share provides an upside of 92% 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	164,366	157,999	149,279	178,011	183,385	173,872
Field Expenditures	40,280	43,082	40,776	41,842	42,634	39,585
Royalties	24,375	23,842	22,228	27,096	27,311	25,867
<b>Gross Profit</b>	<b>99,711</b>	<b>91,076</b>	<b>86,275</b>	<b>109,072</b>	<b>113,440</b>	<b>108,420</b>
<b>Operating Profit</b>	<b>70,099</b>	<b>70,039</b>	<b>71,856</b>	<b>95,493</b>	<b>97,925</b>	<b>92,273</b>
Other income	15,679	6,583	4,080	12,091	6,349	8,075
Other charges	7,164	5,866	7,043	8,740	9,296	8,885
Finance cost	777	1,113	1,147	866	890	916
<b>Profit before tax</b>	<b>77,837</b>	<b>69,643</b>	<b>68,438</b>	<b>95,554</b>	<b>94,088</b>	<b>90,548</b>
Taxation	18,377	20,218	16,155	25,446	24,388	23,593
<b>Profit after tax</b>	<b>59,459</b>	<b>49,425</b>	<b>52,283</b>	<b>70,108</b>	<b>69,700</b>	<b>66,955</b>

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	4,679	4,853	5,057
Non-Current Assets	161,680	160,346	151,869	145,744	139,852	134,251
Current assets	271,729	335,084	385,639	445,412	512,433	526,059
<b>Total Assets</b>	<b>433,409</b>	<b>495,430</b>	<b>537,508</b>	<b>591,155</b>	<b>652,285</b>	<b>660,309</b>
Non-Current liabilities	65,065	67,432	60,231	62,059	63,944	65,887
Current liabilities	70,140	84,689	88,345	83,661	93,614	53,147
<b>Total Liabilities</b>	<b>135,205</b>	<b>152,121</b>	<b>148,576</b>	<b>145,720</b>	<b>157,557</b>	<b>119,034</b>
Equity	298,204	343,308	388,932	445,435	494,727	541,275
<b>Total Equity &amp; liabilities</b>	<b>433,410</b>	<b>495,430</b>	<b>537,508</b>	<b>591,155</b>	<b>652,285</b>	<b>660,309</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	70,108	69,700	66,955
Non-cash Charges	21,008	21,336	18,247	18,836	17,986	17,193
<b>Operating Cash flows</b>	<b>61,732</b>	<b>20,559</b>	<b>44,341</b>	<b>63,292</b>	<b>89,853</b>	<b>62,240</b>
<b>FCFF</b>	<b>35,722</b>	<b>1,635</b>	<b>39,881</b>	<b>51,769</b>	<b>78,876</b>	<b>51,793</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>34,944</b>	<b>523</b>	<b>38,734</b>	<b>50,904</b>	<b>77,986</b>	<b>50,878</b>
Net change in cash	33,240	(3,798)	32,075	37,299	57,579	30,470
<b>Closing cash</b>	<b>8,563</b>	<b>6,525</b>	<b>4,751</b>	<b>37,680</b>	<b>90,671</b>	<b>116,323</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (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 Alpha Capital 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](mailto:info@akseerresearch.com)

**Alpha Capital (Pvt) Limited**

3<sup>rd</sup> 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](mailto:info@alfaadhi.net)