

Pakistan Petroleum Limited
Result Review

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

Pakistan Research

2QFY22 EPS clocks in at PKR 5.25/share, up 21% YoY, DPS at PKR 1.5

- PPL announced its 2QFY22 financial results today, where the company reported a consolidated EPS of PKR 5.25, up 21% YoY. This growth can mainly be attributed to higher international crude oil prices and PKR devaluation. This takes 1HFY22 earnings to PKR 11.44/share, up 19% YoY. Along with the result, the company also declared an interim cash dividend of PKR 1.5/share.
- Net sales grew by 28% YoY to PKR 46.8bn during the 2Q. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 13% and 9% YoY decline in PPL's oil and gas production, respectively.
- Exploration expenditure went up by 3.3x YoY to PKR 4.2bn, as against PKR 973mn in SPLY. PPL encountered a dry well in Gambat South block during 2Q.
- Furthermore, PPL booked PKR 2.4bn 3D seismic cost related to offshore block in Abu Dhabi during 2Q, which restricted the bottom-line growth.
- Other income increased by 1.5x YoY to PKR 2.7bn owing to exchange gains on foreign currency booked during the quarter.
- Effective tax rate remained 34% during 2Q as against 23% in SPLY, restricting the earnings growth.
- On a sequential basis, PPL posted a 15% QoQ decline in earnings. Increase in admin expenses (+26% QoQ), other operating expenses (+67% QoQ) and lower other income (-40% QoQ) kept earnings depressed. Furthermore, PKR 2.4bn expense related to the Abu Dhabi block also weighed down the earnings.
- We have a 'BUY' stance on PPL. Our Dec-22 price target (PT) of PKR 156/share provides an upside of 99% along with a dividend yield of 6.4%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	156
Current Price (PKR)	78
Upside/(Downside) (%)	+ 99%
Dividend Yield (%)	6.4%
Total Return (%)	+ 106%
12-month High (PKR)	95
12-month Low (PKR)	69
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	212,781
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Revenue	36,494	46,823	28%	75,812	90,419	19%
Field Expenditures	12,783	9,533	-25%	22,188	19,965	-10%
Royalties	5,441	6,942	28%	11,395	13,379	17%
Gross Profit	18,269	30,348	66%	42,229	57,075	35%
Exploration Expenditure	973	4,185	330%	3,270	9,042	177%
Other Income	1,118	2,735	145%	1,876	7,279	288%
Other Charges	1,754	3,536	102%	3,891	5,648	45%
Finance Costs	299	312	4%	603	608	1%
Profit Before Tax	15,359	21,614	41%	34,552	44,780	30%
Taxation	3,578	7,335	105%	8,447	13,641	61%
Profit After Tax	11,780	14,279	21%	26,105	31,139	19%
EPS	4.3	5.2	21%	9.59	11.44	19%
DPS	1.50	1.50		1.50	1.50	

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	3.6	4.3	4.1	3.0	3.1	3.2
Dividend Yield	2.1%	1.3%	4.5%	6.4%	9.6%	9.6%
EV/EBITDA	1.1	1.7	1.4	0.7	0.2	0.1
P/B	0.7	0.6	0.5	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	16.8%	14.8%	12.9%

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 156/share provides an upside of 99% 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	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
Gross Profit	99,711	91,076	86,275	109,072	113,440	108,420
Operating Profit	70,099	70,039	71,856	95,493	97,925	92,273
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
Profit before tax	77,837	69,643	68,438	95,554	94,088	90,548
Taxation	18,377	20,218	16,155	25,446	24,388	23,593
Profit after tax	59,459	49,425	52,283	70,108	69,700	66,955

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
Total Assets	433,409	495,430	537,508	591,155	652,285	660,309
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
Total Liabilities	135,205	152,121	148,576	145,720	157,557	119,034
Equity	298,204	343,308	388,932	445,435	494,727	541,275
Total Equity & liabilities	433,410	495,430	537,508	591,155	652,285	660,309

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
Operating Cash flows	61,732	20,559	44,341	63,292	89,853	62,240
FCFF	35,722	1,635	39,881	51,769	78,876	51,793
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	50,904	77,986	50,878
Net change in cash	33,240	(3,798)	32,075	37,299	57,579	30,470
Closing cash	8,563	6,525	4,751	37,680	90,671	116,323

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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