

Pakistan Petroleum Limited
Result Review

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

Pakistan Research**3QFY22 earnings clock in at PKR 7.5/share, up 70% YoY**

- PPL's announced its 3QFY22 financial results today where the company reported an EPS of PKR 7.5, up 70% YoY. The increase in earnings emanate from 66% YoY higher international crude oil prices and 11% YoY PKR devaluation. This takes 9MFY22 earnings to PKR 18.9/share, up 35% YoY.
- Net sales grew by 38% YoY to PKR 51.1bn as against PKR 36.9bn in SPLY. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 9% and 8% YoY decline in company's oil and gas production, respectively. Decline in production came from TAL block, Adhi, Nashpa, Sui, Qadirpur and Kandhkot.
- Exploration expenditure went up by 1.7x YoY to PKR 1.6bn, as against PKR 602mn in SPLY mainly due to low base effect.
- Other income increased by 1.98x YoY to PKR 3.1bn owing to exchange gains on foreign currency booked during the quarter.
- Effective tax rate remained 33.6% during 3Q as against 28.4% in SPLY, which contained the bottomline growth.
- On a sequential basis, PPL's earnings grew by 43% QoQ mainly on account of higher oil price (+25% QoQ) and currency devaluation (-2% QoQ).
- We have a 'BUY' stance on PPL. Our Dec-22 price target (PT) of PKR 169/share provides an upside of 125% along with a dividend yield of 7.3%.

Key Data

| | |
|-------------------------|---------|
| PSX Ticker | PPL |
| Target Price (PKR) | 169 |
| Current Price (PKR) | 75 |
| Upside/(Downside) (%) | + 125% |
| Dividend Yield (%) | 7.3% |
| Total Return (%) | + 133% |
| 12-month High (PKR) | 95 |
| 12-month Low (PKR) | 69 |
| Outstanding Shares (mn) | 2,721 |
| Market Cap (PKR mn) | 204,319 |
| Year End | June |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 3QFY21 | 3QFY22 | YoY | 9MFY21 | 9MFY22 | YoY |
|--------------------------|---------------|---------------|------------|---------------|---------------|------------|
| Net Revenue | 36,906 | 51,090 | 38% | 112,718 | 141,509 | 26% |
| Field Expenditures | 10,709 | 9,688 | -10% | 32,897 | 29,653 | -10% |
| Royalties | 5,361 | 7,409 | 38% | 16,756 | 20,788 | 24% |
| Gross Profit | 20,836 | 33,993 | 63% | 63,065 | 91,068 | 44% |
| Exploration Expenditure | 602 | 1,644 | 173% | 3,872 | 10,686 | 176% |
| Other Income | 1,051 | 3,129 | 198% | 2,927 | 10,407 | 256% |
| Other Charges | 3,309 | 3,236 | -2% | 7,200 | 8,885 | 23% |
| Finance Costs | 282 | 324 | 15% | 885 | 932 | 5% |
| Profit Before Tax | 16,771 | 30,713 | 83% | 51,323 | 75,493 | 47% |
| Taxation | 4,757 | 10,326 | 117% | 13,204 | 23,967 | 82% |
| Profit After Tax | 12,014 | 20,387 | 70% | 38,119 | 51,526 | 35% |
| EPS | 4.4 | 7.5 | 70% | 14.01 | 18.94 | 35% |
| DPS | - | - | | 1.50 | - | |

Key Financial Ratios

| | FY19A | FY20A | FY21A | FY22E | FY23F | FY24F |
|----------------|-------|--------|-------|-------|-------|--------|
| EPS | 21.9 | 18.2 | 19.2 | 26.7 | 30.1 | 26.6 |
| EPS Growth | 29.8% | -16.9% | 5.8% | 39.2% | 12.5% | -11.7% |
| DPS | 1.7 | 1.0 | 3.5 | 5.5 | 9.0 | 8.0 |
| PER | 3.4 | 4.1 | 3.9 | 2.8 | 2.5 | 2.8 |
| Dividend Yield | 2.2% | 1.3% | 4.7% | 7.3% | 12.0% | 10.7% |
| EV/EBITDA | 1.1 | 1.6 | 1.3 | 0.8 | 0.4 | 0.1 |
| P/B | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 |
| ROE | 22.1% | 15.4% | 14.3% | 17.4% | 17.2% | 13.7% |

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 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 169/share provides an upside of 125% along with a dividend yield of 7.3%. 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 | 187,476 | 208,979 | 185,506 |
| Field Expenditures | 40,280 | 43,082 | 40,776 | 37,852 | 40,851 | 39,689 |
| Royalties | 24,375 | 23,842 | 22,228 | 28,890 | 31,548 | 27,702 |
| Gross Profit | 99,711 | 91,076 | 86,275 | 120,734 | 136,580 | 118,114 |
| Operating Profit | 70,099 | 70,039 | 71,856 | 103,089 | 118,923 | 101,724 |
| Other income | 15,679 | 6,583 | 4,080 | 11,012 | 5,213 | 7,208 |
| Other charges | 7,164 | 5,866 | 7,043 | 11,831 | 11,193 | 9,679 |
| Finance cost | 777 | 1,113 | 1,147 | 866 | 890 | 916 |
| Profit before tax | 77,837 | 69,643 | 68,438 | 98,980 | 112,052 | 98,337 |
| Taxation | 18,377 | 20,218 | 16,155 | 26,196 | 30,198 | 26,070 |
| Profit after tax | 59,459 | 49,425 | 52,283 | 72,785 | 81,854 | 72,267 |

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 | 4,685 | 4,869 | 5,064 |
| Non-Current Assets | 161,680 | 160,346 | 151,869 | 145,749 | 139,868 | 134,258 |
| Current assets | 271,729 | 335,084 | 385,639 | 440,709 | 518,755 | 539,478 |
| Total Assets | 433,410 | 495,430 | 537,508 | 586,458 | 658,623 | 673,736 |
| Non-Current liabilities | 65,065 | 67,432 | 60,231 | 62,059 | 63,944 | 65,887 |
| Current liabilities | 70,140 | 84,689 | 88,345 | 77,648 | 90,562 | 53,233 |
| Total Liabilities | 135,205 | 152,121 | 148,576 | 139,707 | 154,506 | 119,120 |
| Equity | 298,204 | 343,308 | 388,932 | 446,751 | 504,117 | 554,616 |
| Total Equity & liabilities | 433,410 | 495,430 | 537,508 | 586,458 | 658,623 | 673,736 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | FY19A | FY20A | FY21A | FY22E | FY23F | FY24F |
| Net Income | 59,459 | 49,425 | 52,283 | 72,785 | 81,854 | 72,267 |
| Non-cash Charges | 21,008 | 21,336 | 18,247 | 18,836 | 17,986 | 17,193 |
| Operating Cash flows | 61,732 | 20,559 | 44,341 | 44,102 | 76,739 | 94,611 |
| FCFF | 35,722 | 1,635 | 39,881 | 32,579 | 65,762 | 84,165 |
| Net borrowings | - | - | - | - | - | - |
| FCFE | 34,944 | 523 | 38,734 | 31,713 | 64,872 | 83,249 |
| Net change in cash | 33,240 | (3,798) | 32,075 | 16,748 | 40,383 | 61,481 |
| Closing cash | 8,563 | 6,525 | 4,751 | 17,130 | 52,925 | 109,588 |

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

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@alfaadhi.net