

**Pakistan Petroleum Limited**  
Result Review

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

Pakistan Research

**PPL: 3QFY23 EPS clocked in at PKR 12.1, up 61% YoY**

- PPL announced its 3QFY23 financial results today, wherein the company posted an EPS of PKR 12.1, up 61% YoY as compared to an EPS of PKR 7.5 in SPLY. The increase in earnings can mainly be attributed to 32% YoY PKR devaluation and higher other income. This takes 9MFY23 earnings to PKR 29.9/share, up 58% YoY.
- Net sales clocked in at PKR 76.9bn, up 51% YoY, mainly on account of higher gas prices and PKR devaluation. PPL's oil and gas production witnessed decline of 5% and 2% respectively owing to lower flows from Adhi, Nashpa and TAL block.
- Exploration expenditure increased by 1.5x YoY to PKR 4.1bn, as against PKR 1.6bn in SPLY, mainly due to low base effect.
- Other income grew by 1.6x YoY to PKR 8.3bn in 3Q. This is mainly due to exchange gains and higher interest rates.
- On sequential basis, earnings increased by 48% QoQ, primarily due to 3.2x QoQ higher other income and 48% lower exploration cost.
- We have a 'BUY' stance on PPL. Our Dec-23 price target (PT) of PKR 163/share provides an upside of 139%, along with a dividend yield of 5.1%.

**Key Data**

PSX Ticker	PPL
Target Price (PKR)	163
Current Price (PKR)	68
Upside/(Downside) (%)	+ 139%
Dividend Yield (%)	5.1%
Total Return (%)	+ 144%
12-month High (PKR)	86
12-month Low (PKR)	50
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	185,353
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Revenue	51,090	76,919	51%	141,509	215,117	52%
Field Expenditures	9,688	12,774	32%	29,653	36,617	23%
Royalties	7,409	11,960	61%	20,788	34,966	68%
<b>Gross Profit</b>	<b>33,993</b>	<b>52,185</b>	<b>54%</b>	<b>91,068</b>	<b>143,534</b>	<b>58%</b>
Exploration Expenditure	1,644	4,080	148%	10,686	13,616	27%
Other Income	3,129	8,252	164%	10,407	15,021	44%
Other Charges	3,236	4,426	37%	8,885	12,469	40%
Finance Costs	324	365	13%	932	1,100	18%
<b>Profit Before Tax</b>	<b>30,713</b>	<b>50,454</b>	<b>64%</b>	<b>75,493</b>	<b>128,302</b>	<b>70%</b>
Taxation	10,326	17,605	70%	23,967	46,954	96%
<b>Profit After Tax</b>	<b>20,387</b>	<b>32,849</b>	<b>61%</b>	<b>51,526</b>	<b>81,348</b>	<b>58%</b>
EPS	7.5	12.1	61%	18.9	29.9	58%
DPS	0.0	0.0		1.5	1.0	

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	36.0	40.0	33.5
EPS Growth	-16.9%	5.8%	4.0%	80.1%	11.1%	-16%
DPS	1.0	3.5	2.0	3.5	4.0	3.5
PER	3.8	3.5	3.4	1.9	1.7	2.0
Dividend Yield	1.5%	5.1%	2.9%	5.1%	5.9%	5.1%
EV/EBITDA	1.4	1.1	1.0	0.3	0.2	0.1
P/B	0.5	0.5	0.4	0.4	0.3	0.3
ROE	15.4%	14.3%	13.2%	20.4%	19.0%	13.8%

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have 'BUY' recommendation on PPL. Our Dec-23 price target (PT) of PKR 163/share provides an upside of 139% along with a dividend yield of 5.1%. Our investment case on PPL is based on (1) higher international oil prices (2) PKR devaluation and, (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	253,138	255,303	230,799
Field Expenditures	43,082	40,776	40,756	43,702	40,852	42,212
Royalties	23,842	22,228	31,018	40,591	40,510	35,553
<b>Gross Profit</b>	<b>91,076</b>	<b>86,275</b>	<b>132,037</b>	<b>168,845</b>	<b>173,941</b>	<b>153,034</b>
<b>Operating Profit</b>	<b>70,039</b>	<b>71,856</b>	<b>102,580</b>	<b>148,227</b>	<b>150,546</b>	<b>127,372</b>
Other income	6,583	4,080	14,190	19,585	28,094	22,126
Other charges	5,866	7,043	13,929	16,861	8,697	7,652
Finance cost	1,113	1,147	1,297	1,586	1,664	1,747
<b>Profit before tax</b>	<b>69,643</b>	<b>68,438</b>	<b>98,937</b>	<b>149,128</b>	<b>168,278</b>	<b>140,099</b>
Taxation	20,218	16,155	44,585	51,748	60,005	49,520
<b>Profit after tax</b>	<b>49,425</b>	<b>52,283</b>	<b>54,353</b>	<b>97,380</b>	<b>108,273</b>	<b>90,579</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	159,915	147,403	139,578	131,135	127,267	127,696
Other LT assets	431	4,466	36,467	36,647	36,742	36,844
Non-Current Assets	160,346	151,869	176,045	167,783	164,009	164,540
Current assets	335,084	385,639	452,634	535,579	623,444	697,251
<b>Total Assets</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>703,363</b>	<b>787,453</b>	<b>861,792</b>
Non-Current liabilities	67,432	60,231	65,305	67,894	70,592	73,404
Current liabilities	84,689	88,345	128,670	112,907	96,910	87,380
<b>Total Liabilities</b>	<b>152,121</b>	<b>148,576</b>	<b>193,974</b>	<b>180,801</b>	<b>167,503</b>	<b>160,785</b>
Equity	343,308	388,932	434,704	522,561	619,950	701,006
<b>Total Equity &amp; liabilities</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>703,363</b>	<b>787,453</b>	<b>861,7912</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	97,380	108,273	90,579
Non-cash Charges	21,336	18,247	17,308	15,836	15,079	14,868
<b>Operating Cash flows</b>	<b>20,559</b>	<b>44,341</b>	<b>879</b>	<b>79,732</b>	<b>37,068</b>	<b>54,263</b>
<b>FCFF</b>	<b>1,635</b>	<b>39,881</b>	<b>(7,208)</b>	<b>74,006</b>	<b>27,545</b>	<b>40,719</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>523</b>	<b>38,734</b>	<b>(8,506)</b>	<b>72,420</b>	<b>25,880</b>	<b>38,972</b>
Net change in cash	(3,798)	32,075	(17,086)	62,897	14,996	29,449
<b>Closing cash</b>	<b>6,525</b>	<b>4,751</b>	<b>5,427</b>	<b>64,842</b>	<b>74,720</b>	<b>97,128</b>

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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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