

Pakistan Petroleum Limited

Key Takeaways

PSX: PPL

Bloomberg: PPL: PA

Reuters: PPL: KA

Pakistan Research**Corporate Briefing Key Takeaways**

- PPL conducted its corporate briefing today following FY21 financial results announcement, wherein the management discussed its annual performance and status of ongoing projects. Main points discussed during the call are presented below.
- Answering to our question regarding circular debt, PPL's management apprised that the government is considering different options to resolve this issue. The management did not inform about any concrete development regarding the circular debt. As per the management, PPL's receivables stood at PKR 161bn (SNGPL), PKR 110bn (SSGC) and PKR 6bn (Genco II) at the end of FY21.
- On the matter of lower gas offtake of Kandhkot field from GENCO, management is considering different options including diverting the gas to other clients such as fertilizer companies. Another option, which would be costly and needs assurance/guarantee from the government, is to setup a plant to process the gas to pipeline quality and add it to the SNGPL system. The gas from Kandhkot contains CO₂ and other impurities which do not meet the criteria of gas utilities.
- About the Pakistan International Oil Limited, a consortium of local companies to carryout exploration activities in UAE, PPL's management informed that the newly formed company is expected to drill 7 exploratory and 5 appraisal wells in offshore block 5 in Abu Dhabi during the next 9 years. The first well is expected to be drilled in 1Q 2023.
- Furthermore, in TAL block, production from Mamikhel is awaiting approval from the government and is expected to commence in 2-3 months.
- According to the management, there is some litigation issue regarding Zafir project which will be resolved soon. Once its resolved, the company expects to complete the project and commence the gas production in 8-10 months. The management of the company expects 38mmcf output from the project.
- PPL has planned 14 wells in current fiscal year including 5 exploratory and 9 development wells.

Key Data

PSX Ticker	PPL
Target Price (PKR)	179
Current Price (PKR)	77
Upside/(Downside) (%)	134%
Dividend Yield (%)	6.5%
Total Return (%)	140%
12-month High (PKR)	104
12-month Low (PKR)	71
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	208,237
Year End	June

Source: Company Accounts, 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 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Jun-22 price target (PT) of PKR 179/share provides an upside of 134% along with a dividend yield of 6.5%. 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	177,723	182,899	166,759
Field Expenditures	40,280	43,082	40,776	41,882	43,059	40,695
Royalties	24,375	23,842	22,228	27,088	27,331	25,110
Gross Profit	99,711	91,076	86,275	108,752	112,509	100,953
Operating Profit	70,099	70,039	71,856	95,113	96,918	84,679
Other income	15,679	6,583	4,080	4,533	6,273	7,993
Other charges	7,164	5,866	7,043	8,912	9,220	8,273
Finance cost	777	1,113	1,147	866	890	916
Profit before tax	77,837	69,643	68,438	89,868	93,081	83,483
Taxation	18,377	20,218	16,155	22,996	23,988	21,077
Profit after tax	59,459	49,425	52,283	66,872	69,093	62,406

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	161,073	159,915	147,403	141,064	140,567	140,090
Other LT assets	608	431	4,466	4,679	4,853	5,052
Non-Current Assets	161,680	160,346	151,869	145,743	145,420	145,143
Current assets	271,729	335,084	385,639	442,236	503,751	509,048
Total Assets	433,409	495,430	537,508	587,979	649,171	654,190
Non-Current liabilities	65,065	67,432	60,231	62,059	63,944	65,887
Current liabilities	70,140	84,689	88,345	83,722	94,343	54,059
Total Liabilities	135,205	152,121	148,576	145,781	158,286	119,947
Equity	298,204	343,308	388,932	442,199	490,884	534,244
Total Equity & liabilities	433,410	495,430	537,508	587,979	649,171	654,190

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	66,872	69,093	62,406
Non-cash Charges	21,008	21,336	18,247	18,836	18,348	18,263
Operating Cash flows	61,732	20,559	44,341	60,610	90,567	70,331
FCFF	35,722	1,635	39,881	49,086	73,660	53,486
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	48,221	72,770	52,570
Net change in cash	33,240	(3,798)	32,075	34,616	52,363	33,523
Closing cash	8,563	6,525	4,751	34,998	82,772	111,477

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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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%

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