

PPL - FY21 EPS expected at PKR 18.92, up 4% YoY; DPS PKR 1.5

- PPL is scheduled to announce its FY21 results on September 17, 2021. We expect the company to post an EPS of PKR 18.92 for the year, compared to an EPS of PKR 18.16 in SPLY, depicting a growth rate of 4% YoY.
- Along with the result, the company is expected to announce final dividend of PKR 1.5/share in addition to an interim dividend of PKR 1.5, which will take the cumulative payout to PKR 3.0/share in FY21.
- The company's topline is likely to decline 3% YoY to PKR 153bn compared to PKR 158bn in SPLY, mainly due to lower gas production during FY21.
- PPL's gas production witnessed decline of 3% YoY during the year where the major reduction came from Sui, Kandhkot, Adhi and Tal block. Oil production remained flat during the year.
- Exploration expenditure is expected to significantly decline by 64% YoY to PKR 6.5bn, as against PKR 17.9bn in FY20 mainly due to lower number of dry wells during FY21. Just to recall, PPL booked dry well cost of PKR 11.5bn in FY20.
- On quarterly basis, earnings are expected to increase 23% YoY to PKR 4.91/share, primarily due to higher international crude oil prices and recovery in hydrocarbon production during the quarter.
- Our Dec-21 price target (PT) of PKR 186/share provides an upside of 140% along with a dividend yield of 3.9%.
- We have a "BUY" stance on PPL which is trading at FY22 PE and PBV of 3.5x and 0.5x, respectively.

Key Data

PSX Ticker	PPL
Target Price (PKR)	186
Current Price (PKR)	77
Upside/(Downside) (%)	+ 140%
Dividend Yield (%)	3.9%
Total Return (%)	+ 144%
12-month High (PKR)	104
12-month Low (PKR)	77
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	210,250
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Revenue	31,458	39,976	27%	157,999	152,694	-3%
Field Expenditures	9,734	12,866	32%	43,082	45,763	6%
Royalties	4,924	6,051	23%	23,842	22,807	-4%
Gross Profit	16,800	21,060	25%	91,076	84,124	-8%
Exploration Expenditure	1,148	2,635	130%	17,952	6,507	-64%
Other Income	2,324	2,914	25%	6,583	5,841	-11%
Other Charges	1,002	1,213	21%	5,866	8,412	43%
Finance Costs	293	130	-56%	1,113	1,015	-9%
Profit Before Tax	15,762	19,467	24%	69,643	70,790	2%
Taxation	4,933	6,117	24%	20,218	19,321	-4%
Profit After Tax	10,829	13,351	23%	49,425	51,470	4%
EPS	3.98	4.91	23%	18.16	18.92	4%
DPS	1.00	1.50		1.00	3.00	

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	16.84	21.85	18.16	18.92	22.14	23.51
EPS Growth	32%	30%	-17%	4%	17%	6%
DPS	4.0	1.7	1.0	3.0	4.5	7.0
PER	4.6	3.5	4.3	4.1	3.5	3.3
Dividend Yield	5.2%	2.2%	1.3%	3.9%	5.8%	9.1%
EV/EBITDA	1.5	1.5	1.6	1.3	1.0	0.6
P/B	0.9	0.7	0.6	0.5	0.5	0.4
ROE	20.1%	22.1%	15.4%	14.1%	14.7%	14.0%

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 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 Dec-21 price target (PT) of PKR 186/share provides an upside of 140% along with a dividend yield of 3.9%. 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)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net sales	126,621	164,366	157,999	152,694	172,755	182,288
Field Expenditures	33,770	40,280	43,082	45,763	49,308	52,881
Royalties	18,550	24,375	23,842	22,807	24,424	25,409
Gross Profit	74,301	99,711	91,076	84,124	99,024	103,998
Operating Profit	60,064	70,099	70,039	74,377	88,749	92,623
Other income	9,397	15,679	6,583	5,841	7,089	9,175
Other charges	5,372	7,164	5,866	8,412	8,115	8,523
Finance cost	471	777	1,113	1,015	919	945
Profit before tax	63,619	77,837	69,643	70,790	86,804	92,331
Taxation	17,793	18,377	20,218	19,321	26,561	28,356
Profit after tax	45,826	59,459	49,425	51,470	60,243	63,974

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	155,354	161,073	159,915	158,935	157,978	159,822
Other LT assets	32,148	39,799	431	386	325	287
Non-Current Assets	187,502	200,871	160,346	159,321	158,303	160,109
Current assets	182,459	261,742	335,084	412,479	437,598	499,141
Total Assets	369,962	462,614	495,430	571,800	595,901	659,251
Non-Current liabilities	63,206	65,065	67,432	69,584	71,689	73,858
Current liabilities	66,306	99,344	84,689	115,602	89,599	105,851
Total Liabilities	129,512	164,409	152,121	185,185	161,288	179,710
Equity	240,449	298,204	343,308	386,615	434,613	479,541
Total Equity & liabilities	369,962	462,614	495,430	571,800	595,901	659,250

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	45,826	59,459	49,425	51,470	60,243	63,974
Non-cash Charges	15,866	21,008	21,336	21,064	20,893	20,925
Operating Cash flows	31,926	22,539	59,751	53,910	43,217	84,499
FCFF	1,197	(3,471)	40,828	34,971	24,279	62,724
Net borrowings	-	-	-	-	-	-
FCFE	726	(4,249)	39,715	33,956	23,361	61,779
Net change in cash	(19,774)	(5,953)	35,394	25,793	11,116	42,732
Closing cash	8,252	8,562	6,524	26,962	35,133	74,773

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

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