

Pakistan Petroleum Limited
Result Preview

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

Pakistan Research

FY22 earnings expected at PKR 25.4/share, DPS at PKR 3.5

- PPL's board meeting is scheduled on September 20, 2022 to consider FY22 financial results where we expect the company to post an EPS of PKR 25.4, up 32% YoY. The increase in earnings can mainly be attributed to 71% YoY higher international crude oil prices (averaging at USD 92/bbl) and 10% YoY PKR devaluation (averaging at PKR 178/USD). Along with the result, PPL is likely to announce a final cash dividend of PKR 3.5/share, taking the cumulative dividend for FY22 to PKR 5.0/share.
- Net sales are likely to clock in at PKR 197.8bn, up 33% YoY. Despite significant increase in oil price and PKR devaluation, revenue growth will remain restricted owing to 12% YoY and 7% YoY decline in PPL's oil and gas production, respectively.
- Oil production decline came from 1) TAL block, down 12% YoY, 2) Adhi field, down 21% YoY due to some production issues and, 3) Nashpa field, down 16% YoY. Similarly, major decline in gas production came from 1) Sui field, down 7% YoY due to natural decline, 2) TAL block, down 9% YoY due to gas leakage in SNGP transmission line, 3) Qadirpur field down 14% YoY and, 4) Kandhkot field, down 12% YoY on account of low offtake from Guddu Thermal Power Station.
- Exploration expenditure is expected to go up by 18% YoY to PKR 12.5bn, as against PKR 10.6bn in SPLY, mainly due to higher cost of dry wells booked during the period. Just to recall, PPL encountered 2 dry wells during FY22.
- Other income is likely to see an increase of 2.7x YoY to PKR 15.0bn owing to higher income on treasury bills and exchange gains on foreign currency booked during the year.
- Effective tax rate is expected at 37.6% during FY22 as against 23.6% in SPLY. This increase in tax expense is due to recently imposed super tax at 10%, hence PPL's profitability growth will remain restricted. Had there been no super tax, PPL's earnings would have grown by 54% YoY during FY22.
- On a quarterly basis, PPL's earnings are likely to grow by 25% YoY to PKR 6.5/share, on the back of 113% YoY higher oil price (in PKR terms). PPL's overall production is likely to plummet in 4Q with major decline in oil production, down 12% YoY. Similarly, PPL is expected to book an enormous tax expense in 4Q owing to super tax. Resultantly, earnings growth will remain limited.
- We have a 'BUY' stance on PPL. Our Jun-23 price target (PT) of PKR 154/share provides an upside of 135% along with a dividend yield of 19.1%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	154
Current Price (PKR)	65
Upside/(Downside) (%)	+ 135%
Dividend Yield (%)	19.1%
Total Return (%)	+ 154%
12-month High (PKR)	89
12-month Low (PKR)	64
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	178,061
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Revenue	36,561	56,285	54%	149,279	197,795	33%
Field Expenditures	7,878	9,740	24%	40,776	39,393	-3%
Royalties	5,472	8,476	55%	22,228	29,265	32%
Gross Profit	23,211	38,069	64%	86,275	129,137	50%
Exploration Expenditure	6,762	1,832	-73%	10,634	12,518	18%
Other Income	1,153	4,626	301%	4,080	15,033	268%
Other Charges	(157)	3,784	NM	7,043	12,669	80%
Finance Costs	262	498	90%	1,147	1,430	25%
Profit Before Tax	17,115	35,411	107%	68,438	110,904	62%
Taxation	2,951	17,697	500%	16,155	41,664	158%
Profit After Tax	14,164	17,714	25%	52,283	69,240	32%
EPS	5.2	6.5	25%	19.2	25.4	32%
DPS	2.0	3.5		3.5	5.0	

Aftab Awan
aftab.awan@alphacapital.com.pk

Key Financial Ratios						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	25.4	41.0	32.0
EPS Growth	29.8%	-16.9%	5.8%	32.4%	60.9%	-21.8%
DPS	1.7	1.0	3.5	5.0	12.5	9.5
PER	3.0	3.6	3.4	2.6	1.6	2.0
Dividend Yield	2.5%	1.5%	5.3%	7.6%	19.1%	14.5%
EV/EBITDA	0.8	1.3	1.0	0.6	0.3	0.1
P/B	0.6	0.5	0.5	0.4	0.3	0.3
ROE	22.1%	15.4%	14.3%	16.6%	23.1%	15.8%

Source: Company Financials, Akseer Research

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Jun-23 price target (PT) of PKR 154/share provides an upside of 135% along with a dividend yield of 19.1%. 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	197,795	273,986	235,498
Field Expenditures	40,280	43,082	40,776	39,393	44,494	42,990
Royalties	24,375	23,842	22,228	29,265	43,431	36,335
Gross Profit	99,711	91,076	86,275	129,137	186,060	156,174
Operating Profit	70,099	70,039	71,856	112,417	164,112	135,821
Other income	15,679	6,583	4,080	15,033	22,632	4,261
Other charges	7,164	5,866	7,043	12,669	18,606	12,494
Finance cost	777	1,113	1,147	1,430	906	932
Profit before tax	77,837	69,643	68,438	110,904	167,231	126,656
Taxation	18,377	20,218	16,155	41,664	55,798	39,540
Profit after tax	59,459	49,425	52,283	69,240	111,433	87,116

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	161,073	159,915	147,403	141,064	138,305	135,664
Other LT assets	608	431	4,466	4,691	4,909	5,095
Non-Current Assets	161,680	160,346	151,869	145,756	143,213	140,758
Current assets	271,729	335,084	385,639	441,348	540,041	585,478
Total Assets	433,409	495,430	537,508	587,104	683,255	726,236
Non-Current liabilities	65,065	67,432	60,231	62,567	64,467	66,425
Current liabilities	70,140	84,689	88,345	79,970	96,800	76,557
Total Liabilities	135,205	152,121	148,576	142,537	161,267	142,982
Equity	298,204	343,308	388,932	444,567	521,988	583,254
Total Equity & liabilities	433,410	495,430	537,508	587,104	683,255	726,236

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	69,240	111,433	87,116
Non-cash Charges	21,008	21,336	18,247	18,836	18,200	17,828
Operating Cash flows	61,732	20,559	44,341	33,439	67,396	80,289
FCFF	35,722	1,635	39,881	22,480	52,914	66,060
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	21,050	52,008	65,127
Net change in cash	33,240	(3,798)	32,075	7,445	17,995	39,278
Closing cash	8,563	6,525	4,751	7,827	21,234	55,694

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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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