

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 FY23 financial results announcement, wherein the management discussed its annual performance and status of ongoing projects. Main points discussed during the briefing are presented below.
- Company reported profit of PKR 98bn (EPS PKR 35.99) up 79% YoY in FY23 due to rupee devaluation and higher other income on account of elevated interest rates.
- PPL gas production increased by merely 1% YoY to 815mmcf in FY23 due to increase in offtakes from Kandkhot. Moreover, Oil and LPG production declined by 2% YoY and 0.3% YoY, respectively.
- Regarding circular debt, management hope that recent increase in gas prices would have a positive impact on company's collections. Subsequently this would allow the company to increase its cash payout.
- Company has planned to drill disposal well to increase production from Adhi field by cutting water production. To highlight, production from Adhi field observed a considerable decline this year attributed to field's natural decline and water production from wells. Moreover, delay in the drilling of disposal well prevented high water cut production.
- Gas flows from Sui remained at 296mmcf, down 11% YoY primarily because of natural decline and lower gas offtakes by SNGPL due to prioritization of LNG at limited intervals. However, production from kandhkot field increased by 54% YoY to 160mmcf in FY23 due to increased offtakes by GENCO-II.
- The company is pursuing to commence site construction work of Zafir GPF project at the earliest. Management expects addition of 35mmcf gas upon completion of this facility
- The company has planned Capex of PKR 35bn for FY24. PPL plans to drill 5 exploratory and 6 development wells during FY24. The management further informed that they will focus the exploration efforts on high risk and high return frontier and offshore areas. In FY23, company hit four discoveries one in operated field Gambat South and the other three in partner operated fields.
- The company is strategically focusing its efforts on specific blocks, including Kalat, Margand, Baska, Sirani, Sorah, and Musakhel, where significant potential exists to reshape the reserves base. PPL is geared up to employ extensive 2D seismic campaigns and targeted 3D seismic data acquisition in the Margand, Musakhel, Suleiman, Kuhan and Pezu blocks to evaluate the potential and prospects of these areas. Furthermore, the company drilling plans are well underway for exploration wells in Kalat, Hala, Shah Bandar, and Baska blocks.
- In offshore, PPL intends to collaborate with either local or international partners to drill a well in Eastern Offshore Indus C, aiming to diversify risk in light of higher CAPEX requirement. In particular, company would opt for shallow reservoirs, primarily due to lower capital requirements.
- Internationally, PPL led consortium (PIOL), is spearheading exploration and appraisal activities in the Abu Dhabi's offshore Block 5, with plan to commence drilling the first well in the coming fiscal year 2023-24.
- The company has planned Capex of PKR 35bn for FY24.

Key Data

PSX Ticker	PPL
Target Price (PKR)	182
Current Price (PKR)	84
Upside/(Downside) (%)	+ 118%
Dividend Yield (%)	8%
Total Return (%)	+ 126%
12-month High (PKR)	85
12-month Low (PKR)	51
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	227,225
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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on PPL. Our Dec-24 price target (PT) of PKR 182/share provides an upside of 118% along with a dividend yield of 8.0%. Our investment case on PPL is based on (1) resolution of circular debt, (2) dollar hedged revenue, 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 and (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)						
	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
Net sales	149,279	203,811	288,053	321,590	318,675	308,363
Field Expenditures	40,776	40,776	49,278	52,314	50,565	55,794
Royalties	22,228	31,018	46,875	51,354	50,354	47,724
Gross Profit	86,275	132,017	191,900	217,922	217,757	204,845
Operating Profit	71,856	102,518	165,519	190,251	191,958	181,340
Other income	4,080	14,232	17,405	18,423	15,553	17,422
Other charges	7,043	13,929	15,776	17,609	15,788	14,852
Finance cost	1,147	1,297	1,552	1,647	2,296	2,402
Profit before tax	68,438	98,917	164,912	187,325	189,427	181,507
Taxation	16,155	44,585	67,690	71,026	71,310	68,215
Profit after tax	52,283	54,333	97,222	116,299	118,117	113,292

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
PPE	147,403	139,578	138,045	133,758	133,795	133,829
Other LT assets	4,466	36,467	55,705	58,543	58,546	58,548
Non-Current Assets	151,869	176,045	193,749	192,302	192,341	192,377
Current assets	385,639	452,634	600,695	683,136	760,168	835,228
Total Assets	537,508	628,679	794,445	875,438	952,509	1,027,605
Non-Current liabilities	60,231	65,305	72,445	75,382	78,444	81,634
Current liabilities	88,345	128,670	181,133	160,576	143,677	136,302
Total Liabilities	148,576	193,974	253,577	235,958	222,121	217,937
Equity	388,932	434,704	540,867	639,480	730,388	809,668
Total Equity & liabilities	537,508	628,679	794,445	875,438	952,509	1,027,605

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	52,283	54,333	97,222	116,299	118,117	113,292
Non-cash Charges	18,247	17,308	20,863	15,868	15,621	15,625
Operating Cash flows	44,341	859	9,229	61,272	98,401	91,704
FCFF	39,881	(7,228)	(8,492)	51,336	85,038	78,445
Net borrowings	-	-	-	-	-	-
FCFE	38,734	(8,526)	(10,044)	49,689	82,742	76,043
Net change in cash	32,075	(17,086)	(1,103)	32,003	55,533	42,030
Closing cash	4,751	5,427	6,299	45,067	95,119	129,849

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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