

PPL: 1QFY22 EPS clocks in at PKR 6.2, up 18% YoY, up 19% QoQ

- PPL announced its 1QFY22 financial result today where the company reported net earnings of PKR 6.2/share, up 18% YoY, compared to an EPS of PKR 5.3 in SPLY. The result is in line with our expectations.
- The company's topline increased by 11% YoY to PKR 43.6bn compared to PKR 39.3bn in 1QFY21. Despite 68% YoY surge in oil price (in PKR terms), decline in oil and gas production by 10% YoY each restricted the topline growth.
- Exploration expenditure increased twofold to PKR 4.8bn, as against PKR 2.3bn in the SPLY. On the contrary, other charges remained flat on YoY.
- Other income swelled by 4.9x YoY to PKR 4.5bn as compared to PKR 759mn in 1QFY21, possibly on account of exchange gains booked during the period resulting from PKR depreciation.
- Effective tax rate came in at 27.2% during 1QFY22 as compared to 25.4% in the same period last year.
- On sequential basis, earnings grew by 19% QoQ, primarily due to higher international crude oil prices and PKR devaluation.
- Our Jun-22 price target (PT) of PKR 179/share provides an upside of 134% along with a dividend yield of 6.5%.
- We have a "BUY" stance on PPL which is trading at FY22 PE and PBV of 3.1x and 0.5x, respectively.

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)	208,509
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)					
	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Revenue	39,318	43,596	11%	36,561	19%
Field Expenditures	9,405	10,432	11%	7,878	32%
Royalties	5,954	6,437	8%	5,472	18%
Gross Profit	23,959	26,727	12%	23,211	15%
Exploration Expenditure	2,297	4,857	111%	6,762	-28%
Other Income	759	4,544	499%	1,153	294%
Other Charges	2,137	2,112	-1%	(157)	-1447%
Finance Costs	304	296	-3%	262	13%
Profit Before Tax	19,194	23,166	21%	17,115	35%
Taxation	4,869	6,306	30%	2,951	114%
Profit After Tax	14,325	16,860	18%	14,164	19%
EPS	5.3	6.2	18%	5.21	19%
DPS	0.00	0.00		2.00	

Key Financial Ratios						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	21.9	18.2	19.2	24.6	25.4	22.9
EPS Growth	30%	-17%	6%	28%	3%	-10%
DPS	1.7	1.0	3.5	5.0	7.5	7.0
PER	3.5	4.2	4.0	3.1	3.0	3.3
Dividend Yield	2.2%	1.3%	4.6%	6.5%	9.8%	9.1%
EV/EBITDA	1.1	1.6	1.3	0.7	0.3	0.1
P/B	0.7	0.6	0.5	0.5	0.4	0.4
ROE	22.1%	15.4%	14.3%	16.1%	14.8%	12.2%

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

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