

Pakistan Petroleum Limited
Result Review

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

Pakistan Research**1QFY23 earnings clock in at PKR 9.68/share, up 56% YoY**

- PPL announced its 1QFY23 financial results today wherein the company reported an EPS of PKR 9.68, up 56% YoY. The result is in line with our expectation. This earnings growth mainly emanates from 43% YoY higher crude oil prices and 27% YoY PKR devaluation.
- Net sales grew by 67% YoY to PKR 72.8bn on account of higher oil and gas prices and PKR devaluation. Additionally, expected increase in PPL's gas production from Kandhkot field also supported the topline growth.
- Exploration expenditure went down by 64% YoY to PKR 1.7bn, as against PKR 4.9bn in SPLY, mainly due to absence of dry well(s).
- Other expenses increased by 115% YoY to PKR 4.5bn possibly due to higher provision for windfall levy on oil booked during the quarter.
- On sequential basis, earnings increased by 8.3x QoQ, primarily due to low base effect as PPL booked huge tax expense (pertaining to super tax) and enormous exploration expense (related to 2 dry wells) in previous quarter.
- We have a 'BUY' stance on PPL. Our Jun-23 price target (PT) of PKR 150/share provides an upside of 176% along with a dividend yield of 6.5%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	150
Current Price (PKR)	54
Upside/(Downside) (%)	176%
Dividend Yield (%)	6.5%
Total Return (%)	183%
12-month High (PKR)	89
12-month Low (PKR)	53
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	147,423
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Net Revenue	43,596	72,820	67%
Field Expenditures	10,432	11,612	11%
Royalties	6,437	12,573	95%
Gross Profit	26,727	48,635	82%
Exploration Expenditure	4,857	1,745	-64%
Other Income	4,544	4,818	6%
Other Charges	2,112	4,531	115%
Finance Costs	296	353	19%
Profit Before Tax	23,166	45,587	97%
Taxation	6,306	19,257	205%
Profit After Tax	16,860	26,330	56%
EPS	6.2	9.7	56%
DPS	-	-	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	34.8	29.1	24.0
EPS Growth	-16.9%	5.8%	4.0%	74.0%	-16.3%	-17%
DPS	1.0	3.5	2.0	3.5	3.0	2.5
PER	3.0	2.8	2.7	1.6	1.9	2.3
Dividend Yield	1.8%	6.5%	3.7%	6.5%	5.5%	4.6%
EV/EBITDA	0.9	0.6	0.6	0.1	0.1	0.1
P/B	0.4	0.4	0.3	0.3	0.2	0.2
ROE	15.4%	14.3%	13.2%	19.8%	14.3%	10.5%

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 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 150/share provides an upside of 176% 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	157,999	149,279	203,811	244,525	218,168	191,745
Field Expenditures	43,082	40,776	40,756	39,812	38,420	38,943
Royalties	23,842	22,228	31,018	39,364	34,451	29,537
Gross Profit	91,076	86,275	132,037	165,349	145,297	123,265
Operating Profit	70,039	71,856	102,580	143,274	124,609	101,137
Other income	6,583	4,080	14,190	11,277	5,108	6,519
Other charges	5,866	7,043	13,929	8,267	7,265	6,163
Finance cost	1,113	1,147	1,297	960	989	1,020
Profit before tax	69,643	68,438	98,937	145,324	121,463	100,472
Taxation	20,218	16,155	44,585	50,747	42,307	35,134
Profit after tax	49,425	52,283	54,353	94,577	79,157	65,338

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	159,915	147,403	139,578	127,003	118,918	114,918
Other LT assets	431	4,466	36,467	36,642	36,720	36,820
Non-Current Assets	160,346	151,869	176,045	163,646	155,638	151,739
Current assets	335,084	385,639	452,634	529,691	592,685	642,034
Total Assets	495,430	537,508	628,679	693,337	748,323	793,773
Non-Current liabilities	67,432	60,231	65,305	67,331	69,421	71,580
Current liabilities	84,689	88,345	128,670	106,247	88,149	72,905
Total Liabilities	152,121	148,576	193,974	173,578	157,571	144,484
Equity	343,308	388,932	434,704	519,758	590,752	649,288
Total Equity & liabilities	495,430	537,508	628,679	693,337	748,323	793,773

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	94,577	79,157	65,338
Non-cash Charges	21,336	18,247	17,308	15,595	14,352	13,636
Operating Cash flows	20,559	44,341	879	83,298	58,351	66,273
FCFF	1,635	39,881	(7,208)	81,319	53,096	57,662
Net borrowings	-	-	-	-	-	-
FCFE	523	38,734	(8,506)	80,359	52,107	56,642
Net change in cash	(3,798)	32,075	(17,086)	70,836	43,944	49,840
Closing cash	6,525	4,751	5,427	72,781	111,607	154,406

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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