

Pakistan Petroleum Limited
Result Preview

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

Pakistan Research

PPL: 2QFY23 EPS to clock in at PKR 10.0, up 90% YoY

- PPL's board meeting is scheduled on February 27, 2023 to consider 2QFY23 financial results, wherein we expect the company to post an EPS of PKR 10.0, up 90% YoY. The increase in earnings can mainly be attributed to 10% YoY higher crude oil prices (averaging at USD 88/bbl) and 22% YoY PKR devaluation (PKR 228/USD). This takes 1HFY23 earnings to PKR 19.6/share, up 72% YoY. Along with the result, company is likely to announce an interim cash dividend of PKR 1.5/share.
- Net sales are likely to clock in at PKR 65.4bn, up 40% YoY, mainly on account of higher oil and gas prices and PKR devaluation. Additionally, PPL's gas production is likely to increase during 2Q owing to increased flows from Kandhkot field. Oil production, on the other hand, is expected to remain flat.
- Exploration expenditure is expected to decline by 10% YoY to PKR 3.7bn, as against PKR 4.2bn in SPLY, mainly due to lower cost of dry wells.
- Other income is likely to go up by 84% YoY to PKR 5.0bn in 2Q. This is mainly due to exchange gains and higher interest rates.
- On sequential basis, earnings are expected to slightly increase by 3% QoQ, primarily due to higher tax expense in preceding quarter.
- We have a 'BUY' stance on PPL. Our Dec-23 price target (PT) of PKR 162/share provides an upside of 125%, along with a dividend yield of 4.9%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	162
Current Price (PKR)	72
Upside/(Downside) (%)	125%
Dividend Yield (%)	4.9%
Total Return (%)	130%
12-month High (PKR)	89
12-month Low (PKR)	50
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	195,612
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Revenue	46,823	65,445	40%	90,419	138,265	53%
Field Expenditures	9,533	10,149	6%	19,965	21,761	9%
Royalties	6,942	10,471	51%	13,379	23,044	72%
Gross Profit	30,348	44,825	48%	57,075	93,459	64%
Exploration Expenditure	4,185	3,763	-10%	9,042	5,508	-39%
Other Income	2,735	5,020	84%	7,279	9,838	35%
Other Charges	3,536	4,113	16%	5,648	8,644	53%
Finance Costs	312	231	-26%	608	583	-4%
Profit Before Tax	21,614	40,500	87%	44,780	86,087	92%
Taxation	7,335	13,365	82%	13,641	32,622	139%
Profit After Tax	14,279	27,135	90%	31,139	53,465	72%
EPS	5.2	10.0	90%	11.4	19.6	72%
DPS	1.5	1.5		1.5	1.5	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	18.2	19.2	20.0	35.2	40.0	33.4
EPS Growth	-16.9%	5.8%	4.0%	76.2%	13.6%	-16%
DPS	1.0	3.5	2.0	3.5	4.0	3.5
PER	4.0	3.7	3.6	2.0	1.8	2.2
Dividend Yield	1.4%	4.9%	2.8%	4.9%	5.6%	4.9%
EV/EBITDA	1.5	1.2	1.0	0.3	0.3	0.1
P/B	0.6	0.5	0.4	0.4	0.3	0.3
ROE	15.4%	14.3%	13.2%	20.0%	19.1%	13.8%

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have 'BUY' recommendation on PPL. Our Dec-23 price target (PT) of PKR 162/share provides an upside of 125% along with a dividend yield of 4.9%. Our investment case on PPL is based on (1) higher international oil prices (2) PKR devaluation 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 (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	247,851	255,565	231,208
Field Expenditures	43,082	40,776	40,756	43,389	40,855	42,211
Royalties	23,842	22,228	31,018	39,947	40,757	35,811
Gross Profit	91,076	86,275	132,037	164,515	173,953	153,186
Operating Profit	70,039	71,856	102,580	144,366	150,552	127,525
Other income	6,583	4,080	14,190	20,079	28,362	21,728
Other charges	5,866	7,043	13,929	16,451	8,698	7,659
Finance cost	1,113	1,147	1,297	960	989	1,020
Profit before tax	69,643	68,438	98,937	147,034	169,227	140,573
Taxation	20,218	16,155	44,585	51,240	60,402	49,697
Profit after tax	49,425	52,283	54,353	95,795	108,825	90,877

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	159,915	147,403	139,578	131,135	127,267	127,696
Other LT assets	431	4,466	36,467	36,644	36,743	36,844
Non-Current Assets	160,346	151,869	176,045	167,780	164,009	164,540
Current assets	335,084	385,639	452,634	532,898	621,243	694,689
Total Assets	495,430	537,508	628,679	700,678	785,252	859,229
Non-Current liabilities	67,432	60,231	65,305	67,331	69,421	71,580
Current liabilities	84,689	88,345	128,670	112,371	96,914	87,380
Total Liabilities	152,121	148,576	193,974	179,702	166,336	158,959
Equity	343,308	388,932	434,704	520,976	618,917	700,270
Total Equity & liabilities	495,430	537,508	628,679	700,678	785,252	859,229

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	49,425	52,283	54,353	95,795	108,825	90,877
Non-cash Charges	21,336	18,247	17,308	15,836	15,079	14,868
Operating Cash flows	20,559	44,341	879	85,228	28,895	53,480
FCFF	1,635	39,881	(7,208)	78,876	18,697	39,209
Net borrowings	-	-	-	-	-	-
FCFE	523	38,734	(8,506)	77,916	17,707	38,189
Net change in cash	(3,798)	32,075	(17,086)	68,393	6,823	28,666
Closing cash	6,525	4,751	5,427	70,338	72,043	93,668

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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