

**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 FY22 financial results announcement, wherein the management discussed its annual performance and status of ongoing projects. Main points discussed during the call are presented below.
- Regarding circular debt, PPL's management apprised that the government is reviewing different proposals to resolve this issue. PPL is also focusing on oil resources to dilute the impact of circular debt including commencement of oil production from Dhok Sultan and investment in PIOL. Moreover, diversification in Reko Diq project and BLZ project will also serve to this purpose in the medium to long term. Just to recall, PPL's trade debts increased by PKR 84bn to PKR 366bn during FY22. The company's sales to collection ratio also deteriorated to 47% during the year.
- PPL plans to drill 7 exploratory and 9 development wells during FY23. The management further informed that they will focus the exploration efforts on high risk and high return frontier areas for next few years. If unsuccessful, the company will review its exploration strategy and modify if need be.
- Exploration in newly awarded blocks will start in 2 years' time.
- Regarding Morgand, the management said that its still in appraisal phase and there are multiple challenges including security issue, difficult terrain, absence of infrastructure and the fact that the gas is low BTU. If appraisal is successful, PPL will go for the production provided that government approves low BTU gas price for this discovery.
- About the Pakistan International Oil Limited, appraisal wells are planned in next few months.
- The company has planned Capex of PKR 27bn during FY23 and PKR 30bn for FY24.
- During FY23, PPL expects gas production to remain above 800mmcfd.

**Key Data**

PSX Ticker	PPL
Target Price (PKR)	150
Current Price (PKR)	59
Upside/(Downside) (%)	+ 155%
Dividend Yield (%)	5.9%
Total Return (%)	+ 161%
12-month High (PKR)	89
12-month Low (PKR)	50
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	160,075
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 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 155% along with a dividend yield of 5.9%. 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
<b>Gross Profit</b>	<b>91,076</b>	<b>86,275</b>	<b>132,037</b>	<b>165,349</b>	<b>145,297</b>	<b>123,265</b>
<b>Operating Profit</b>	<b>70,039</b>	<b>71,856</b>	<b>102,580</b>	<b>143,274</b>	<b>124,609</b>	<b>101,137</b>
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
<b>Profit before tax</b>	<b>69,643</b>	<b>68,438</b>	<b>98,937</b>	<b>145,324</b>	<b>121,463</b>	<b>100,472</b>
Taxation	20,218	16,155	44,585	50,747	42,307	35,134
<b>Profit after tax</b>	<b>49,425</b>	<b>52,283</b>	<b>54,353</b>	<b>94,577</b>	<b>79,157</b>	<b>65,338</b>

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
<b>Total Assets</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>693,336</b>	<b>748,323</b>	<b>793,772</b>
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
<b>Total Liabilities</b>	<b>152,121</b>	<b>148,576</b>	<b>193,974</b>	<b>173,578</b>	<b>157,571</b>	<b>144,484</b>
Equity	343,308	388,932	434,704	519,758	590,752	649,288
<b>Total Equity &amp; liabilities</b>	<b>495,430</b>	<b>537,508</b>	<b>628,679</b>	<b>693,336</b>	<b>748,323</b>	<b>793,772</b>

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
<b>Operating Cash flows</b>	<b>20,559</b>	<b>44,341</b>	<b>879</b>	<b>83,298</b>	<b>58,351</b>	<b>66,273</b>
<b>FCFF</b>	<b>1,635</b>	<b>39,881</b>	<b>(7,208)</b>	<b>81,319</b>	<b>53,096</b>	<b>57,662</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>523</b>	<b>38,734</b>	<b>(8,506)</b>	<b>80,359</b>	<b>52,107</b>	<b>56,642</b>
Net change in cash	(3,798)	32,075	(17,086)	70,836	43,944	49,840
<b>Closing cash</b>	<b>6,525</b>	<b>4,751</b>	<b>5,427</b>	<b>72,781</b>	<b>111,607</b>	<b>154,406</b>

Source: Company Accounts, Akseer Research

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**Valuation Methodology**

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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