

PPL - FY21 EPS clocked in at PKR 19.21, up 5.8% YoY, DPS PKR 2.0

- PPL announced its FY21 financial result today where the company reported net earnings of PKR 19.21/share, up 5.8% YoY. This growth can mainly be attributed to lower effective tax rate which came around 23.6% during FY21 as against 29% during FY20.
- Along with the result, the company also announced final dividend of PKR 2.0/share (slightly higher than our expectation of PKR 1.5/share) in addition to an interim dividend of PKR 1.5, taking the cumulative payout to PKR 3.5/share in FY21.
- The company's topline decreased by 6% YoY to PKR 149.3bn during the year mainly due to lower gas production from Sui, Kandhkot, Adhi and Tal block. Oil production remained flat during the year.
- Exploration expenditure significantly declined by 41% YoY to PKR 10.6bn, as against PKR 18.0bn in FY20 mainly due to lower number of dry wells during FY21. Just to recall, PPL booked dry well cost of PKR 11.5bn in FY20.
- On the flip side, other income shrunk to PKR 4.1bn, down 38% YoY possibly due to an exchange loss during the year.
- On quarterly basis, 4QFY21 EPS increased by 31% YoY to PKR 5.21, primarily due to higher international crude oil prices, recovery in hydrocarbon production and lower effective tax rate, (17.2% vs 31.3% in 4QFY20).
- Our Dec-21 price target (PT) of PKR 186/share provides an upside of 138% along with a dividend yield of 4.5%.
- We have a "BUY" stance on PPL which is trading at FY22 PE and PBV of 3.6x and 0.5x, respectively.

Key Data

PSX Ticker	PPL
Target Price (PKR)	186
Current Price (PKR)	78
Upside/(Downside) (%)	+ 138%
Dividend Yield (%)	4.5%
Total Return (%)	+ 142%
12-month High (PKR)	104
12-month Low (PKR)	77
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	213,053
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Revenue	31,458	36,561	16%	157,999	149,279	-6%
Field Expenditures	9,734	7,878	-19%	43,082	40,776	-5%
Royalties	4,924	5,472	11%	23,842	22,228	-7%
Gross Profit	16,800	23,211	38%	91,076	86,275	-5%
Exploration Expenditure	1,148	6,762	489%	17,952	10,634	-41%
Other Income	2,324	1,153	-50%	6,583	4,080	-38%
Other Charges	1,002	(157)	NM	5,866	7,043	20%
Finance Costs	293	262	-11%	1,113	1,147	3%
Profit Before Tax	15,762	17,115	9%	69,643	68,438	-2%
Taxation	4,933	2,951	-40%	20,218	16,155	-20%
Profit After Tax	10,829	14,164	31%	49,425	52,283	6%
EPS	3.98	5.21	31%	18.16	19.21	6%
DPS	1.00	2.00		1.00	3.50	

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F
EPS	16.84	21.85	18.16	19.21	21.99	23.37
EPS Growth	32%	30%	-17%	6%	14%	6%
DPS	4.0	1.7	1.0	3.5	4.5	7.0
PER	4.6	3.6	4.3	4.1	3.6	3.4
Dividend Yield	5.1%	2.1%	1.3%	4.5%	5.7%	8.9%
EV/EBITDA	1.5	1.5	1.7	1.4	1.1	0.7
P/B	0.9	0.7	0.6	0.6	0.5	0.4
ROE	20.1%	22.1%	15.4%	14.3%	14.6%	13.9%

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 Dec-21 price target (PT) of PKR 186/share provides an upside of 138% along with a dividend yield of 4.5%. 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)						
	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F
Net sales	126,621	164,366	157,999	149,279	172,755	182,288
Field Expenditures	33,770	40,280	43,082	40,776	49,308	52,881
Royalties	18,550	24,375	23,842	22,228	24,424	25,409
Gross Profit	74,301	99,711	91,076	86,275	99,024	103,998
Operating Profit	60,064	70,099	70,039	71,856	88,176	92,022
Other income	9,397	15,679	6,583	4,080	6,906	9,086
Other charges	5,372	7,164	5,866	7,043	8,115	8,523
Finance cost	471	777	1,113	1,147	919	945
Profit before tax	63,619	77,837	69,643	68,438	86,049	91,640
Taxation	17,793	18,377	20,218	16,155	26,221	28,050
Profit after tax	45,826	59,459	49,425	52,283	59,828	63,590

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	155,354	161,073	159,915	158,935	157,978	159,822
Other LT assets	32,148	39,799	431	383	325	287
Non-Current Assets	187,502	200,871	160,346	159,318	158,303	160,109
Current assets	182,459	261,742	335,084	401,003	436,636	497,794
Total Assets	369,962	462,614	495,430	560,321	594,939	657,904
Non-Current liabilities	63,206	65,065	67,432	69,584	71,689	73,858
Current liabilities	66,306	99,344	84,689	104,670	89,599	105,851
Total Liabilities	129,512	164,409	152,121	174,254	161,288	179,710
Equity	240,449	298,204	343,308	386,068	433,651	478,194
Total Equity & liabilities	369,962	462,614	495,430	560,322	594,939	657,904

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	45,826	59,459	49,425	52,283	59,828	63,590
Non-cash Charges	15,866	21,008	21,336	21,064	20,893	20,925
Operating Cash flows	31,926	22,539	59,751	51,521	46,005	84,115
FCFF	1,197	(3,471)	40,828	32,713	27,068	62,340
Net borrowings	-	-	-	-	-	-
FCFE	726	(4,249)	39,715	31,566	26,149	61,394
Net change in cash	(19,774)	(5,953)	35,394	22,043	13,904	42,348
Closing cash	8,252	8,562	6,524	23,212	34,171	73,427

Source: Company Accounts, Akseer Research

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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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