

Pakistan Petroleum Limited
Result Review

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

Pakistan Research

FY22 earnings clocked in at PKR 19.98/share, DPS at PKR 0.5

- PPL announced its FY22 financial results today where the company posted an EPS of PKR 19.98, up 4% YoY. Despite 71% YoY higher crude oil prices and 10% YoY PKR devaluation, huge exploration expense wiped out the bottomline growth during the year. Along with the result, PPL announced a final cash dividend of PKR 0.5/share, taking the cumulative dividend for FY22 to PKR 2.0/share.
- Net sales grew 37% YoY to PKR 203.8bn as against PKR 149bn in FY21. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 12% YoY and 7% YoY decline in PPL's oil and gas production, respectively.
- Exploration expenditure went up 133% YoY to PKR 24.8bn, as against PKR 10.6bn in SPLY, mainly due to higher cost of dry wells booked during the period. As per our understanding, PPL encountered 2 dry wells during FY22. Details are awaited regarding this huge exploration expense.
- Other income surged 2.5x YoY to PKR 14.2bn owing to higher income on treasury bills and exchange gains on foreign currency booked during the year.
- Effective tax rate came in at 45.1% during FY22 as against 23.6% in SPLY. This increase in tax expense is due to super tax of 10%, thus keeping PPL's profitability in check.
- On a quarterly basis, PPL's earnings went down by 80% YoY to PKR 1.0/share. Despite 113% YoY higher oil price (in PKR terms), earnings witnessed erosion due to enormous exploration expense and super tax. PPL's overall production also plummeted in 4Q with major decline in oil production, down 12% YoY.
- We have a 'BUY' stance on PPL. Our Jun-23 price target (PT) of PKR 155/share provides an upside of 139% along with a dividend yield of 18.5%.

Key Data

PSX Ticker	PPL
Target Price (PKR)	155
Current Price (PKR)	65
Upside/(Downside) (%)	+ 139%
Dividend Yield (%)	18.5%
Total Return (%)	+ 158%
12-month High (PKR)	89
12-month Low (PKR)	64
Outstanding Shares (mn)	2,721
Market Cap (PKR mn)	176,456
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Revenue	36,561	62,301	70%	149,279	203,811	37%
Field Expenditures	7,878	11,103	41%	40,776	40,756	0%
Royalties	5,472	10,230	87%	22,228	31,018	40%
Gross Profit	23,211	40,969	77%	86,275	132,037	53%
Exploration Expenditure	6,762	14,138	109%	10,634	24,824	133%
Other Income	1,153	3,783	228%	4,080	14,190	248%
Other Charges	(157)	5,044	NM	7,043	13,929	98%
Finance Costs	262	365	39%	1,147	1,297	13%
Profit Before Tax	17,115	23,444	37%	68,438	98,937	45%
Taxation	2,951	20,617	599%	16,155	44,585	176%
Profit After Tax	14,164	2,827	-80%	52,283	54,353	4%
EPS	5.2	1.0	-80%	19.2	20.0	4%
DPS	2.0	0.5		3.5	2.0	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	21.9	18.2	19.2	20.0	40.4	32.2
EPS Growth	29.8%	-16.9%	5.8%	4.0%	102.3%	-20.4%
DPS	1.7	1.0	3.5	2.0	12.0	9.5
PER	3.0	3.6	3.4	3.2	1.6	2.0
Dividend Yield	2.6%	1.5%	5.4%	3.1%	18.5%	14.6%
EV/EBITDA	0.8	1.3	1.0	0.8	0.4	0.2
P/B	0.6	0.5	0.5	0.4	0.3	0.3
ROE	22.1%	15.4%	14.3%	13.1%	23.1%	16.0%

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 155/share provides an upside of 139% along with a dividend yield of 18.5%. 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	FY22A	FY23E	FY24F
Net sales	164,366	157,999	149,279	203,811	273,475	241,411
Field Expenditures	40,280	43,082	40,776	40,756	44,534	43,056
Royalties	24,375	23,842	22,228	31,018	42,922	37,036
Gross Profit	99,711	91,076	86,275	132,037	186,019	161,319
Operating Profit	70,099	70,039	71,856	102,580	163,503	140,324
Other income	15,679	6,583	4,080	14,190	20,530	3,918
Other charges	7,164	5,866	7,043	13,929	18,602	12,905
Finance cost	777	1,113	1,147	1,297	906	932
Profit before tax	77,837	69,643	68,438	98,937	164,525	130,404
Taxation	18,377	20,218	16,155	44,585	54,553	42,827
Profit after tax	59,459	49,425	52,283	54,353	109,972	87,577

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	161,073	159,915	147,403	141,064	138,305	135,664
Other LT assets	608	431	4,466	4,691	4,909	5,095
Non-Current Assets	161,680	160,346	151,869	145,756	143,213	140,758
Current assets	271,729	335,084	385,639	441,348	540,041	585,478
Total Assets	433,409	495,430	537,508	587,104	683,255	726,236
Non-Current liabilities	65,065	67,432	60,231	62,567	64,467	66,425
Current liabilities	70,140	84,689	88,345	79,970	96,800	76,557
Total Liabilities	135,205	152,121	148,576	142,537	161,267	142,982
Equity	298,204	343,308	388,932	444,567	521,988	583,254
Total Equity & liabilities	433,410	495,430	537,508	587,104	683,254	726,236

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	59,459	49,425	52,283	69,240	111,433	87,116
Non-cash Charges	21,008	21,336	18,247	18,836	18,200	17,828
Operating Cash flows	61,732	20,559	44,341	33,439	67,396	80,289
FCFF	35,722	1,635	39,881	22,480	52,914	66,060
Net borrowings	-	-	-	-	-	-
FCFE	34,944	523	38,734	21,050	52,008	65,127
Net change in cash	33,240	(3,798)	32,075	7,445	17,995	39,278
Closing cash	8,563	6,525	4,751	7,827	21,234	55,694

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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