

# Day Break

Tuesday, 06 September 2016

## Company Update

### Pak Petroleum Ltd.

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	179.8
Last Closing	163.0
Upside	10%

### Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Market Cap (PKRbn   USDmn)	321.4   3,078.6
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(0.7)	30.8	29.2
Low	154.1	120.0	101.1
High	171.5	171.5	171.5

### Key Company Financials

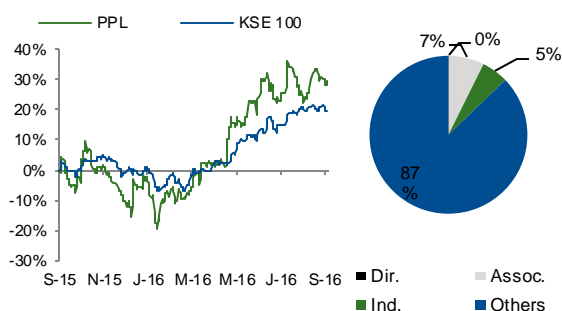
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	104.4	79.9	114.6	126.3
Net Income	34.3	20.8	34.8	38.7
EPS (PKR)	17.4	10.5	17.6	19.6
DPS (PKR)	8.5	4.8	7.8	8.8
Total Assets	247.7	254.6	287.2	314.5
Total Equity	192.0	203.5	222.9	244.6

### Key Financial Ratios

ROE (%)	18%	10%	16%	16%
P/E (x)	9.4	15.5	9.2	8.3
P/B (x)	1.7	1.6	1.4	1.3
DY (%)	5.2	2.9	4.8	5.4

### Relative Price Performance & Shareholding



### About the Company

The Company was incorporated in Pakistan in 1950 with the main objectives of conducting exploration, prospecting, development and production of oil and natural gas resources.

Source: Bloomberg, KSE 100 & IGI Research

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## Pakistan Petroleum Limited

### Lower Oil and Higher Exploration Cost to pull Earnings down in FY16

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 9<sup>th</sup> Sep-16, where we expect company to post earnings of PKR 20.8bn (EPS PKR 10.53) down by 39%YoY in FY16.
- As per noticed filed on local bourse, Company expects impairment charges in the range of PKR 0- 4bn (PKR 1.38/share), as a result of external valuation carried out by third party for MND Exploration and Production Limited, a wholly owned subsidiary of PPL.
- The scrip is currently trading at FY17E P/E multiple of 9.2x. With our Dec-16 TP of PKR 179/share the scrip offers 10% upside from its last close of PKR 162/share, hence we maintain 'BUY' call on the scrip.

### Earnings to Clock in at PKR 10.53/share in FY16

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 9<sup>th</sup> Sep-16, where we expect company to post earnings of PKR 20.8bn (EPS PKR 10.53) down by 39%YoY in FY16. We attribute this decline in profitability to 23%YoY plunge in revenues led by 44%YoY decline in oil price and 3%YoY reduction in oil production. Moreover, higher exploration cost despite fall in oil price led to dilution in earnings. We expect the company to pay cash dividend of PKR 2.50/share in 4QFY16 along with the result, taking total dividends for FY16 to PKR 4.75/share.

On quarterly basis, earnings are estimated to increase by +21%YoY to PKR 5.2bn (EPS PKR 2.63) in 4QFY16 on the back of a) +12%YoY higher gas production and, b) 89%YoY decline in other operating expense

### Exhibit: PPL Production

	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Oil (bbl)	1,347,029	1,319,686	2%	3,948,042	4,077,672	-3%
Gas (mmcf)	74,286	66,167	12%	212,757	199,059	7%
LPG (Tons)	17,519	15,145	16%	48,050	41,666	15%

Source: IGI Research, Company Financials, PPSI

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### Production Strengthened over higher production from Tal Block, Sui field and Adhi Field

Oil production increased +2%YoY in 4QFY16 on the back of higher production from Tal Block (Maramzai and Makori East) and Adhi. Gas production witnessed a rise of +12%YoY in 4QFY16 owing to higher output from Tal block (Maramzai and Makori East) and Sui field. As production from Mardankhel (Tal Block) has been delayed, we expect commencement of production from 1QFY17. Oil/gas production from Mardankhel is expected to augment total production by +2%YoY/+4%YoY.

#### Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Net Sales	20,663	23,792	-13%	79,896	104,377	-23%
Field Expenditure	11,884	13,612	-13%	42,966	42,059	2%
Royalty	2,216	2,781	-20%	9,037	12,213	-26%
Gross Profit	6,563	7,399	-11%	27,893	50,105	-44%
Other Income	1,352	1,521	-11%	5,515	7,569	-27%
Oth. Operating Expense	365	3,200	-89%	3,712	7,951	-53%
Finance Cost	136	139	-2%	629	554	14%
PBT	7,414	5,582	33%	29,067	49,170	-41%
PAT	5,190	4,306	21%	20,755	34,253	-39%
EPS (PKR)	2.63	2.18		10.53	17.37	
DPS (PKR)	2.50	4.00		4.75	8.50	

Source: IGI Research and Company Financials

### Impairment Charges on MND E&P

As per notice filed on local bourse, company expects impairment charges in the range of PKR 0- 4bn (PKR 1.38/share), as a result of external valuation carried out by third party for MND Exploration and Production Limited, a wholly owned subsidiary of PPL. However, we have not yet incorporated the impact into our valuations, since the matter is expected to be decided in upcoming board meeting.

### Outlook

We expect improvement in earnings going forward on the back of a) extension of Sui Lease offering higher gas price for Sui gas field (55% of price under Petroleum Policy 2012), b) new discoveries coming online to add 16%/9% to oil/gas production in FY17 and, c) expected recovery in oil prices to keep impairment losses in check. We have assumed oil price of USD 45/bb for FY17, with our long term assumption of USD 50/bbl.

### Recommendation

The scrip is currently trading at FY17E P/E multiple of 9.2x. With our Dec-16 TP of PKR 179/share the scrip offers 10% upside from its last close of PKR 162/share, hence we maintain 'BUY' call on the scrip. However, we await the full year financial statements to update our investment case.

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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