

# Day Break

Monday, 28 October 2019

## COMPANY UPDATE

**Pakistan Petroleum Limited**

Oil & Gas Exploration Companies

<b>Recommendation</b>	BUY		
Target Price:	Dec/20	172.8	
Last Closing:	26-Oct-19	112.7	
Upside:		53.3	
Valuation Methodology:	Reserve based - Discounted	Cash Flow (DCF)	
Time Horizon:		14M	

### Market Data

Bloomberg Tkr.	PPL PA		
Shares (mn)	2,721.0		
Free Float Shares (mn)	666.1		
Free Float Shares (%)	24.5%		
Market Cap (PKRbn   USDmn)	306.6	1,968.5	
Exchange	KSE ALL		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	(15.3)	(35.9)	(36.5)
Lo	103.4	103.4	103.4
Hi	140.0	176.8	193.8

### Key Company Financials

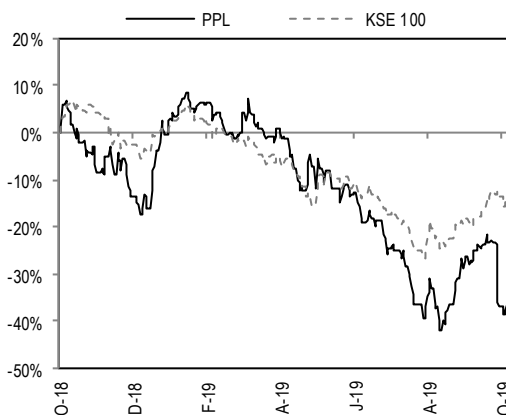
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	163.9	178.2	172.0	161.1
Net Income	61.6	62.5	55.6	49.8
EPS (PKR)	22.7	23.0	20.4	18.3
DPS (PKR)	2.0	4.0	8.0	7.0
Total Assets	458.3	483.0	517.2	536.0
Total Equity	298.6	355.7	389.0	418.9

### Key Financial Ratios

ROE (%)	20.4	22.9	19.1	14.9
P/E (x)	5.0	4.9	5.5	6.2
P/B (x)	1.3	1.0	0.9	0.8
DY (%)	1.8	3.5	7.1	6.2

### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Exploration Companies

### PPL: In the absence of exchange gain and 3 dry wells incurred earnings to inch up +2%YoY; EPS: PKR 5.29 for 1QFY20

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 30<sup>th</sup> Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 14.41bn (EPS PKR 5.29), up by +2% YoY,
- We estimate incline in revenues on the back 28% YoY depreciation of PKR against greenback. However, 16% YoY drop in oil prices along with 8% YoY decline in oil production is likely to keep earnings growth restricted. Furthermore, higher exploration cost due to dry well cost incurred in 3 blocks and higher operating expense amid rise in amortization cost is likely to further cap earning growth during 1QFY20,
- We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 172.8/share offering 53% upside from last close.

### Earnings to clock in at PKR 5.29/share for 1QFY20, up by +2%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 30<sup>th</sup> Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 14.41bn (EPS PKR 5.29), up by +2% YoY, compared to PKR 14.19bn (EPS PKR 5.21) in the same period last year. We estimate incline in revenues on the back of 28% YoY depreciation of PKR against greenback. However, 16% YoY drop in oil prices along with 8% YoY decline in oil production is likely to keep earnings growth restricted. Furthermore, higher exploration cost due to dry well cost incurred in 3 blocks namely Kotri, Nashpa and Sadiqabad and higher operating expense amid rise in amortization cost is likely to further cap earning growth during 1QFY20.

On a quarterly basis, earnings are expected to plunge by 12% QoQ in the absence of hefty exchange gains and 13%/4% QoQ drop in oil/LPG flows amid lower production from Nashpa field due to Annual Turnaround (ATA). However, due to 8% QoQ drop in oil prices and lower production, revenues are expected to drop by 7% QoQ despite 8% QoQ PKR depreciation. Due to three dry wells incurred during the quarter, the drop in exploration cost by 72% QoQ is offset by lower other income which is down by 76% QoQ in the absence of hefty exchange gains booked last quarter, thus leading to drop in earning on sequential basis.

Exhibit:

### PPL Financial Highlights

PKRmn	1QFY20E	1QFY19	YoY	4QFY19	QoQ
Net Sales	41,646	38,217	9%	44,689	-7%
Operating Expense	11,037	9,086	21%	10,581	4%
Royalty & Other Levies	6,150	5,637	9%	6,670	-8%
Gross Profit	24,459	23,493	4%	27,437	-11%
Exploration Expense	3,503	3,187	10%	12,413	-72%
Other Income	1,988	1,985	0%	8,357	-76%
EBIT	19,696	19,661	0%	21,432	-8%
Finance Cost	227	134	70%	242	-6%
PBT	19,469	19,527	0%	21,190	-8%
PAT	14,407	14,189	2%	16,379	-12%
EPS (PKR)	5.29	5.21	2%	6.02	-12%
DPS (PKR)	-	-	-	2.0	-

Source: IGI Research and Company Financials

No of Shares: 2,720.97mn

### Recommendation

We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 172.8/share offering 53% upside from last close. The company is currently trading at FY20 P/E of 4.9x.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2019

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

(Reserve Based DCF Valuation)

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