

Day Break

Monday, 29 October 2018

COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	211.5
Last Closing: 26-Oct-18	189.2
Upside:	11.8
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Jun-19

Market Data

Bloomberg Tkr.	PPL PA		
Shares (mn)	2,267.5		
Free Float Shares (mn)	481.5		
Free Float Shares (%)	21.2%		
Market Cap (PKRbn USDmn)	429.0	3,271.8	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	0.8	(2.8)	23.2
Lo	174.9	174.9	144.8
Hi	189.6	193.9	193.9

Key Company Financials

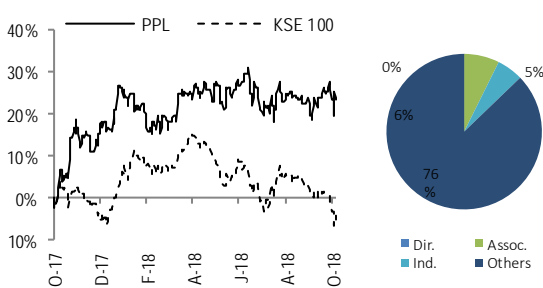
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	126.2	170.2	182.0	174.4
Net Income	45.7	57.4	61.5	56.4
EPS (PKR)	20.1	25.3	27.1	24.9
DPS (PKR)	5.5	10.0	11.0	10.0
Total Assets	282.7	367.3	416.5	453.2
Total Equity	240.4	277.8	314.7	348.6

Key Financial Ratios

ROE (%)	19.0	20.7	19.6	16.2
P/E (x)	9.4	7.5	7.0	7.6
P/B (x)	0.5	1.8	1.5	1.4
DY (%)	2.9	5.3	5.8	5.3

Relative Price Performance



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, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: Exchange gains, weak PKR and higher oil price to lift 1QFY19 EPS to PKR 6.24

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 29th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 14.15bn (EPS PKR 6.24),
- We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher revenues, b) +51%YoY higher oil prices, and c) +90%YoY rise in other income on account of PKR depreciation leading to exchange gains,
- However, higher exploration cost due to dry well cost incurred at Qamar X-01 (Hala), Mamikhel Deep-1 (Tal Block) and Khanjar-01 (Nashpa) should keep earnings growth limited in 1QFY19 in our view along with retrospective amount of Tal block recognized in 1QFY18,
- We maintain a 'BUY' stance on PPL with our Jun-19 target price of PKR 211.5/share offering +12% upside from last close. The company is currently trading at FY19F P/E of 7.5x and offers a healthy dividend yield of 5.3%.

Earnings to grow by +12%YoY during 1QFY19 to PKR 6.24/share

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 29th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 14.15bn (EPS PKR 6.24) compared to PKR 12.68bn (EPS PKR 5.59) in the same period last year. We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher revenues, b) +51%YoY higher oil prices, and c) +90%YoY rise in other income on account of PKR depreciation leading to exchange gains. However, higher exploration cost due to dry well cost incurred at Qamar X-01 (Hala), Mamikhel Deep-1 (Tal Block) and Khanjar-01 (Nashpa) should keep earnings growth limited in 1QFY19 in our view along with retrospective amount of Tal block recognized in 1QFY18.

On quarterly basis, profitability is expected to rise by +13%QoQ during 1QFY19 likely on the back of +6%QoQ depreciation of PKR against greenback and +3%QoQ rise in oil prices. However, drop in other income owing to lower foreign exchange gains and higher exploration cost should keep earnings growth restricted on sequential basis. Furthermore, other expense is expected to drop by 64%QoQ to PKR 1.03bn likely owing to PKR 1.9bn petroleum levy charge booked post imposition of Windfall levy on oil under Petroleum Policy 2012 (PP12).

Exhibit:

Financial Highlights

PKRmn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Net Sales	40,459	32,212	26%	34,387	18%
Field Expenditure	15,446	8,191	89%	13,780	12%
Royalty	6,431	4,890	32%	5,034	28%
Gross Profit	18,582	19,131	-3%	15,572	19%
Other Income	2,235	1,178	90%	2,748	-19%
Other Expense	1,026	1,543	-34%	2,838	-64%
PBT	19,646	18,663	5%	15,489	27%
PAT	14,145	12,678	12%	12,495	13%
EPS (PKR)	6.24	5.59		5.51	
DPS (PKR)	-	-		1.50	

Source: IGI Research and Company Financials

No of Shares: 2,267.49mn

Recommendation

We maintain a **'BUY'** stance on PPL with our Jun-19 target price of PKR 211.5/share offering +12% upside from last close. The company is currently trading at FY19F P/E of 7.5x and offers a healthy dividend yield of 5.3%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun – 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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