

Day Break

Monday, 29 April 2019

COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

| | |
|------------------------|--|
| Recommendation | BUY |
| Target Price: | 31-Dec-19 224.6 |
| Last Closing: | 26-Apr-19 175.9 |
| Upside: | 27.7 |
| Valuation Methodology: | Reserve based - Discounted Cash Flow (DCF) |
| Time Horizon: | 8M |

Market Data

| | | | |
|----------------------------|---------|---------|-------|
| Bloomberg Tkr. | PPL PA | | |
| Shares (mn) | 2,267.5 | | |
| Free Float Shares (mn) | 554.1 | | |
| Free Float Shares (%) | 24.4% | | |
| Market Cap (PKRbn USDmn) | 398.8 | 2,815.6 | |
| Exchange | KSE ALL | | |
| Price Info. | 90D | 06M | 12M |
| Abs. Return | (4.7) | (2.8) | (6.7) |
| Lo | 175.0 | 147.8 | 147.8 |
| Hi | 193.8 | 193.8 | 193.9 |

Key Company Financials

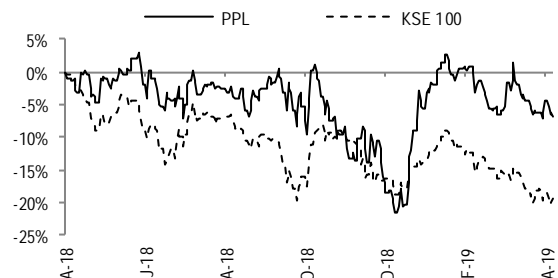
Period End: Jun

| PKRbn | FY18A | FY19E | FY20F | FY21F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 126.2 | 169.8 | 184.1 | 178.3 |
| Net Income | 45.7 | 60.8 | 64.7 | 56.3 |
| EPS (PKR) | 20.1 | 26.8 | 28.5 | 24.8 |
| DPS (PKR) | 5.5 | 8.0 | 11.0 | 10.0 |
| Total Assets | 283 | 367 | 408 | 450 |
| Total Equity | 240 | 280 | 319 | 352 |

Key Financial Ratios

| | | | | |
|---------|------|------|------|------|
| ROE (%) | 19.0 | 21.7 | 20.3 | 16.0 |
| P/E (x) | 8.7 | 6.6 | 6.2 | 7.1 |
| P/B (x) | 0.4 | 1.7 | 1.4 | 1.3 |
| DY (%) | 3.1 | 4.5 | 6.3 | 5.7 |

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

Analyst

Abdullah Farhan

Senior Research Analyst

Tel: (+92-21) 111-234-234 Ext.: 912

Abdullah.farhan@igi.com.pk

Oil & Gas Exploration Companies

PPL: Lower exploration cost and higher oil flows to lift 3QFY19 EPS by +40%YoY to PKR 6.89

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 30th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 15.63bn (EPS PKR 6.89), up by +40%YoY,
- We estimate incline in earnings on the back a) lower exploration cost, b) higher revenues amid 25%YoY depreciation of PKR against greenback, c) increase in other income owing to PKR depreciation and, d) +2%/19%YoY rise in Oil/LPG production owing to improved flows from Adhi and Nashpa,
- This will bring total 9MFY19 profitability to PKR 46.67bn (EPS PKR 20.58) up by +41%YoY compared to PKR 33.19bn (EPS PKR 14.64) in the same period last year,
- We recommend a 'BUY' stance on PPL with our Dec-19 target price of PKR 224.6/share offering 28% upside from last close.

Earnings to clock in at PKR 6.89/share for 3QFY19, up by +40%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 30th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 15.63bn (EPS PKR 6.89), up by +40%YoY, compared to PKR 11.17bn (EPS PKR 4.93) in the same period last year. We estimate incline in earnings on the back a) lower exploration cost, b) higher revenues amid 25%YoY depreciation of PKR against greenback, c) increase in other income owing to PKR depreciation and, d) +2%/19%YoY rise in Oil/LPG production owing to improved flows from Adhi and Nashpa. The company is expected to book dry well cost relating to Misrial X-01 (Hisal Block). This will bring total 9MFY19 profitability to PKR 46.67bn (EPS PKR 20.58) up by +41%YoY compared to PKR 33.19bn (EPS PKR 14.64) in the same period last year. We expect Company to announce cash dividend of PKR 4.0/share.

On quarterly basis, earnings are expected to decline by 7% owing to lower other income as PKR remained relatively stable and drop in oil and gas production amid lower flows from Sui, Qadirpur, Nashpa and Adhi. However, drop in earnings is likely to be diluted by drop in exploration cost owing to lower dry well cost.

Exhibit:

PPL Financial Highlights

| PKRmn | 3QFY19E | 3QFY18 | YoY | 9MFY19E | 9MFY18 | YoY |
|-------------------------|---------|--------|------|---------|--------|------|
| Net Sales | 41,207 | 30,849 | 34% | 120,017 | 91,823 | 31% |
| Field Expenditure | 13,769 | 12,301 | 12% | 42,301 | 33,425 | 27% |
| Royalty | 6,539 | 4,516 | 45% | 18,150 | 13,478 | 35% |
| Gross Profit | 20,899 | 14,032 | 49% | 59,566 | 44,919 | 33% |
| Other Income | 2,432 | 2,088 | 16% | 9,299 | 6,571 | 42% |
| Other Operating Expense | 2,061 | 799 | 158% | 6,362 | 3,092 | 106% |
| Finance Cost | 145 | 211 | -31% | 409 | 450 | -9% |
| PBT | 21,125 | 15,110 | 40% | 62,094 | 47,948 | 30% |
| PAT | 15,632 | 11,169 | 40% | 46,672 | 33,193 | 41% |
| EPS (PKR) | 6.89 | 4.93 | | 20.58 | 14.64 | |
| DPS (PKR) | 4.00 | - | | 4.00 | 4.00 | |

Source: IGI Research and Company Financials

No of Shares: 2,267.49mn

Recommendation

We recommend a 'BUY' stance on PPL with our Dec-19 target price of PKR 224.6/share offering 28% upside from last close. The company is currently trading at FY19/20 P/E of 6.6/6.2x.

Important Disclaimer and Disclosures

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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) |
| Sell | If target price on aforementioned security(ies) is less than -10%, from its last closing price(s) |

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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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

| | | | |
|-----------------|------------------|------------------------------------|----------------------------|
| Saad Khan | Head of Research | Tel: (+92-21) 111-234-234 Ext: 810 | saad.khan@igi.com.pk |
| Abdullah Farhan | Senior Analyst | Tel: (+92-21) 111-234-234 Ext: 912 | abdullah.farhan@igi.com.pk |
| Suleman Ashraf | Research Analyst | Tel: (+92-21) 111-234-234 Ext: 957 | suleman.ashraf@igi.com.pk |
| Muhammad Saad | Research Analyst | Tel: (+92-21) 111-234-234 Ext: 816 | muhammad.saad@igi.com.pk |
| Bharat Kishore | Database Officer | Tel: (+92-21) 111-234-234 Ext: 974 | bharat.kishore@igi.com.pk |

Equity Sales

| | | | |
|-------------------|--|---------------------------|----------------------------|
| Faisal Jawed Khan | Head of Equities | Tel: (+92-21) 35301779 | faisal.jawed@igi.com.pk |
| Zaeem Haider Khan | Regional Head (North) | Tel: (+92-42) 38303559-68 | zaeem.haider@igi.com.pk |
| Muhammad Naveed | Regional Manager (Islamabad & Upper North) | Tel: (+92-51) 2604861-62 | muhammad.naveed@igi.com.pk |
| Irfan Ali | Regional Manager (Faisalabad) | Tel: (+92-41) 2540843-45 | irfan.ali@igi.com.pk |
| Asif Saleem | Branch Manager (RY Khan) | Tel: (+92-68) 5871652-56 | asif.saleem@igi.com.pk |
| Mehtab Ali | Branch Manager (Multan) | Tel: (+92-61) 4512003 | mehtab.ali@igi.com.pk |
| Zeeshan Kayani | Branch Manager (Abbottabad) | Tel: (+92-992) 408243-44 | zeeshan.kayani@igi.com.pk |
| Ihsan Mohammad | Branch Manager (Peshawar) | Tel: (92-91) 5253035 | ihsan.mohammad@igi.com.pk |

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 ,
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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