

Day Break

Thursday, 14 September 2017

COMPANY UPDATE

PAKISTAN PETROLEUM LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	229.7
Last Closing: 13-Sep-17	175.4
Upside:	30.9
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)

Time Horizon: Dec-17

Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Free Float Shares (mn)	481.3
Free Float Shares (%)	24.4%
Market Cap (PKRbn USDmn)	345.9 3,282.2
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	2.1 2.4 6.8
Lo	143.7 143.7 143.7
Hi	180.1 186.5 193.3

Key Company Financials

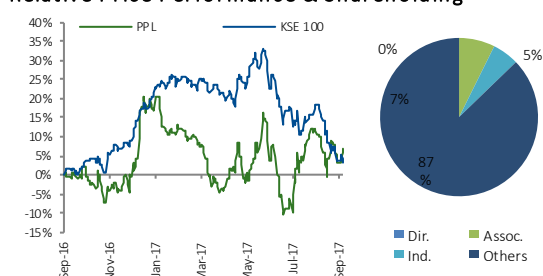
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	80.2	87.3	132.4	129.6
Net Income	17.24	26.1	42.4	40.5
EPS (PKR)	8.7	13.2	21.5	20.5
DPS (PKR)	5.8	6.5	9.5	9.0
Total Assets	272.5	282.7	306.3	327.2
Total Equity	192.6	207.3	231.4	254.0

Key Financial Ratios

ROE (%)	8.9	12.6	18.3	15.9
P/E (x)	20.1	13.3	8.2	8.5
P/B (x)	1.8	1.7	1.5	1.4
DY (%)	3.3	3.7	5.4	5.1

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, PSX & IGI Research

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Oil & Gas – Exploration Companies

PPL: FY17 Earnings to clock in at PKR

13.23/share, retrospective amount for Sui field may lift earnings higher

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 15th Sep-17 to announce financial result for 4QFY17. We expect the company to report earnings of PKR 7.01bn (EPS PKR 3.55) up by +4.8xYoY in 4QFY17 as compared to PKR 1.46bn (EPS PKR 0.74).
- Earnings for FY17 is estimated to clock in at 26.08bn (EPS PKR 13.23) up by +51%YoY as compared to PKR 17.24bn (EPS PKR 8.74) in the corresponding period last year.
- PPL is expected to receive a retrospective amount for the difference between the old price and the revised price. If the amount is received and recorded in 4QFY17 we expect earnings to accrete by PKR 5.95/share bringing total FY17E earning to PKR 19.18/share for FY17E (4QFY17E: PKR 9.50/share).
- We maintain our "BUY" call on PPL with our Dec-17 target price of PKR 230/share, offering +31% upside from its last closing. The company is currently trading at a FY18F P/E of 8.2x and offers a dividend yield of 5.4%.

Earnings to clock in at PKR 3.55/share in 4QFY17, up by +4.8xYoY...

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 15th Sep-17 to announce financial result for 4QFY17. We expect the company to report earnings of PKR 7.01bn (EPS PKR 3.55) up by +4.8xYoY in 4QFY17 as compared to PKR 1.46bn (EPS PKR 0.74) in the same period last year. We attribute this earnings growth to a) +16%YoY increase in oil prices, b) higher oil/gas production, c) 17%YoY decline in Field expenditure in the absence of dry well cost and, d) normalized tax rate of 30% compared to 69.8% in the same period last year. We expect the company to announce cash dividend of PKR 3.5/share along with the result, taking total FY17 cash dividend to PKR 6.5/share.

On quarterly basis earnings are expected to decline by 4%YoY owing to a) 7%QoQ decline in oil prices and, b) 7%YoY decline in oil production.

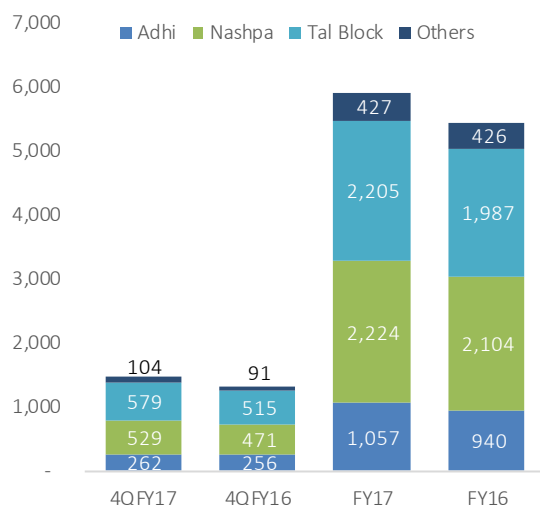
... Taking FY17 earnings to PKR 13.23/share, up by +51%YoY

Earnings for FY17 is estimated to clock in at 26.08bn (EPS PKR 13.23) up by +51%YoY as compared to PKR 17.24bn (EPS PKR 8.74) in the corresponding period last year. We attribute this rise in earnings to a) +19%YoY increase in oil price, b) 5%YoY decline in exploration cost and, c) +10%/+5%YoY rise in oil/gas production.

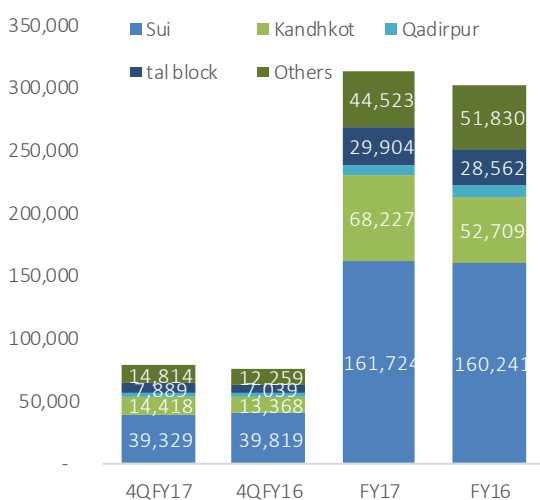
Retrospective impact of Sui price revision may materialize in 4QFY17

To recall, Sui field price revision got deferred by nearly 2 years as the old price agreement expired on 31st May-15. As the revised price has been recently announced and is applicable from Jul-17, PPL is expected to receive a retrospective amount for the difference between the old price and the revised price. Although we have not incorporated the retrospective amount in our estimates, if the amount is received and recorded in 4QFY17 we expect earnings to accrete by PKR 5.95/share bringing total FY17E earning to PKR 19.18/share for FY17E (4QFY17E: PKR 9.50/share).

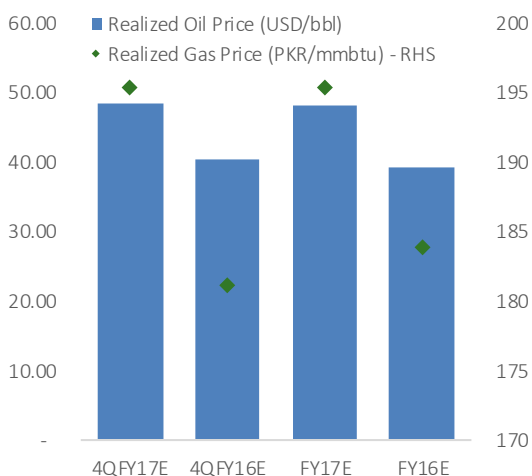
Total Oil Production in FY17 (000'bbls)



Total Gas Production in FY17 (mmcf)



Realized oil and gas price (estimated)



Source: Company Financials, PPIS & IGI Research

Exhibit:

Earnings impact of retrospective amount for Sui field

PKR/share	4QFY17E	4QFY16	YoY	FY17E	FY16	YoY
PPL Basic EPS	3.55	0.74	380%	13.23	8.74	51%
PPL EPS with retrospective amount	9.50	0.74	1184%	19.18	8.74	119%

Source: IGI Research

Oil and gas production up by +8%YoY and +3%YoY, respectively in FY17

Oil production increased by +8%YoY to 16,201bopd in FY17E on the back of production commencement from Mardankhel and production enhancement from Nashpa/Adhi field (cumulative contributing nearly 1% or 1,247bopd to total oil production). For 4QFY17 oil production jumped up by +10%YoY to 16,017bopd primarily led by improved flows from Nashpa, Adhi and Tal Block cumulatively adding 911bopd during 4QFY17E.

Gas production increased by +3%YoY to 857mmcf owing to increase in production from Sui, Kandhkot and Tal Block cumulatively adding 50mmcf of gas, however production from Qadirpur and other fields declined by a total of 22mmcf. For 4QFY17, gas production increased by +5%YoY to 852mmcf primarily led by Kandhkot, Tal block and other fields cumulatively adding 48mmcf of gas while production from Sui and Qadirpur declined by a total of 9mmcf.

Exhibit:

Financial Highlights

PKRmn	4QFY17E	4QFY16*	YoY	QoQ	FY17E	FY16*	YoY
Net Sales	23,277	20,611	13%	-3%	87,250	80,151	9%
Field Expenditure	11,361	13,762	-17%	-1%	42,914	44,952	-5%
Royalty	2,559	2,384	7%	-8%	10,035	9,219	9%
Gross Profit	9,357	4,465	110%	-4%	34,300	25,980	32%
Other Income	1,222	1,206	1%	2%	4,654	5,418	-14%
Operating Expense	427	671	-36%	-23%	1,846	4,032	-54%
Finance Cost	143	166	-14%	25%	490	659	-26%
PBT	10,010	4,835	107%	-2%	36,618	26,707	37%
PAT	7,007	1,459	380%	-4%	26,077	17,242	51%
EPS (PKR)	3.55	0.74	380%	-4%	13.23	8.74	51%
DPS (PKR)	3.50	3.50			6.50	5.75	

Source: IGI Research and Company Financials

No of Shares: 1,972mn

*Restated

Recommendation

We maintain our "BUY" call on PPL with our Dec-17 target price of PKR 230/share, offering +31% upside from its last closing. The company is currently trading at a FY18F P/E of 8.2x and offers a dividend yield of 5.4%.

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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 – 2017

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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