

Day Break

Tuesday, 24 September 2019

COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

| Recommendation | | BUY |
|------------------------|--------------------------------------|-------|
| Target Price: | Dec/19 | 206.1 |
| Last Closing: | 23-Sep-19 | 128.3 |
| Upside: | | 60.7 |
| Valuation Methodology: | Reserve based - Discounted Cash Flow | |
| Time Horizon: | | 3M |

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) | 290.9 | 1,856.1 | |
| Exchange | | KSE ALL | |
| Price Info. | 90D | 06M | 12M |
| Abs. Return | (28.1) | (37.8) | (37.7) |
| Lo | 103.4 | 103.4 | 103.4 |
| Hi | 158.8 | 191.5 | 193.8 |

Key Company Financials

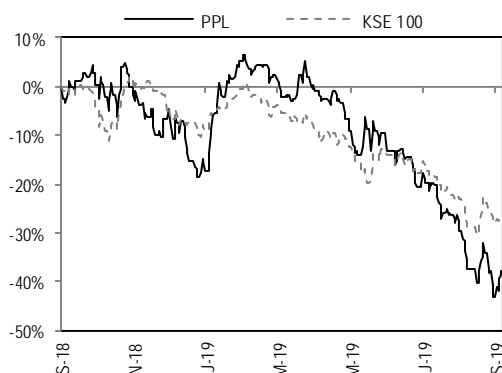
Period End: Jun

| PKRbn | FY18A | FY19E | FY20F | FY21F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 126.2 | 162.5 | 184.1 | 178.3 |
| Net Income | 45.7 | 61.6 | 64.7 | 56.3 |
| EPS (PKR) | 20.1 | 27.2 | 28.5 | 24.8 |
| DPS (PKR) | 5.5 | 4.0 | 11.0 | 10.0 |
| Total Assets | 367.3 | 417.7 | 450.0 | 479.0 |
| Total Equity | 240.4 | 295.7 | 318.7 | 352.4 |

Key Financial Ratios

| | | | | |
|---------|------|------|------|------|
| ROE (%) | 20.4 | 23.0 | 21.1 | 16.8 |
| P/E (x) | 6.4 | 4.7 | 4.5 | 5.2 |
| P/B (x) | 1.2 | 1.0 | 0.9 | 0.8 |
| DY (%) | 4.3 | 3.1 | 8.6 | 7.8 |

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: PKR Depreciation to Overshadow Lower Production and Kekra Dry well Cost

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 25th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 16.37bn (EPS PKR 7.22), up by +31%YoY,
- We estimate incline in earnings on the back a) higher revenues amid 26%YoY depreciation of PKR against greenback and, b) increase in other income owing to PKR depreciation despite lower oil prices and higher exploration cost,
- This will bring total FY19 profitability to PKR 61.63bn (EPS PKR 27.18) up by +35%YoY compared to PKR 45.69bn (EPS PKR 20.15) in the same period last year,
- We recommend a 'BUY' stance on PPL with our Dec-19 target price of PKR 206.1/share offering 61% upside from last close. The company is currently trading at FY19/20 P/E of 4.7/4.5x.

Earnings to clock in at PKR 7.22/share for 4QFY19, up by +31%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 25th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 16.37bn (EPS PKR 7.22), up by +31%YoY, compared to PKR 12.50bn (EPS PKR 5.51) in the same period last year. We estimate incline in earnings on the back a) higher revenues amid 26%YoY depreciation of PKR against greenback and, b) increase in other income owing to PKR depreciation despite lower oil prices and higher exploration cost. The company is expected to book dry well cost relating to Kekra-01 (Indus G-Block), Paharpur X-01 (Paharpur) and Qadirpur Deep X-1 (Qadirpur). This will bring total FY19 profitability to PKR 61.63bn (EPS PKR 27.18) up by +35%YoY compared to PKR 45.69bn (EPS PKR 20.15) in the same period last year.

We expect Company to announce cash dividend of PKR 4.0/share for FY19. However, we may expect a 10% bonus issue accompanied with the result as current authorized share capital allows for a max 10% bonus. Cash payout remains contingent on cash receipts from SNGP and in the event of improved cash position during the quarter we may expect higher cash dividend payout for 4QFY19.

On a quarterly basis, earnings are expected to increase by +15% owing to hefty other income as PKR depreciated by 5%QoQ. However, higher exploration cost amid Kekra Dry well and lower production is expected to keep earnings growth limited during 4QFY19.

Exhibit:

PPL Financial Highlights

| PKRmn | 4QFY19E | 4QFY18 | YoY | FY19E | FY18 | YoY |
|-------------------|---------|--------|------|---------|---------|-----|
| Net Sales | 43,286 | 34,387 | 26% | 162,487 | 126,210 | 29% |
| Field Expenditure | 16,417 | 13,780 | 19% | 59,940 | 47,206 | 27% |
| Royalty | 6,861 | 5,034 | 36% | 24,520 | 18,512 | 32% |
| Gross Profit | 20,008 | 15,572 | 28% | 78,027 | 60,491 | 29% |
| Other Income | 4,056 | 2,748 | 48% | 12,227 | 9,319 | 31% |
| Other Expense | 2,061 | 2,838 | -27% | 8,110 | 5,931 | 37% |
| PBT | 21,829 | 15,489 | 41% | 81,470 | 63,436 | 28% |
| PAT | 16,372 | 12,495 | 31% | 61,626 | 45,688 | 35% |
| EPS (PKR) | 7.22 | 5.51 | 31% | 27.18 | 20.15 | 35% |
| DPS (PKR) | 4.00 | 1.50 | | 4.00 | 5.50 | |

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 206.1/share offering 61% upside from last close. The company is currently trading at FY19/20 P/E of 4.7/4.5x.

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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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