

# Flash Note

Thursday, 28 April 2016

## Oil & Gas Exploration Companies

### PPL: Lower Oil Prices Drag Profitability Down to PKR 1.93/share in 3QFY16

- Pakistan Petroleum Limited company's earnings plunged by 51%YoY to PKR 3.8bn (EPS PKR 1.93) in 3QFY16 as compared to PKR 7.8bn (EPS PKR 3.96) in the corresponding period last year.
- Revenues dropped by 20%YoY to PKR 6.3bn in 3QFY16 on the back of 42%YoY plunge in oil price.
- Field expenditure increased by 1%YoY to PKR 11.1bn in 3QFY16 as compared to PKR 11.0 in the same period last year likely owing to dry well cost incurred during the period.
- Other income witnessed a massive slump of 43%YoY to PKR 1.2bn in 3QFY16 on the back of lower interest rate.
- PPL's finance cost depicted a slight growth of 19%YoY to PKR 165mn in 3QFY16 as compared to PKR 138mn in the corresponding period.
- Company's effective tax rate leaped up by 700bps to 33% in 3QFY16 as compared to 26% in the same period last year.

#### Recommendation

We currently have a strong **"BUY"** call on PPL with our Dec-16 TP of PKR 168/share, offering +13% upside from its last closing of PKR 149/share. The company is currently trading at a FY16E P/E of 12.5x and offers a dividend yield of 3.9%.

#### Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	18,114	22,774	-20%	59,233	80,584	-26%
Field Expenditure	11,107	11,007	1%	31,081	28,447	9%
Royalty	2,037	2,612	-22%	6,821	9,432	-28%
Gross Profit	4,970	9,155	-46%	21,331	42,706	-50%
Other Income	1,152	2,017	-43%	4,163	6,048	-31%
Other Operating Exp	298	552	-46%	3,347	4,751	-30%
Finance Cost	165	138	19%	493	415	19%
PBT	5,658	10,482	-46%	21,653	43,588	-50%
PAT	3,807	7,809	-51%	15,565	29,948	-48%
EPS (PKR)	1.93	3.96	-51%	7.89	15.19	-48%
DPS (PKR)	-	-		2.25	4.50	

Source: IGI Research and Company Financials

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### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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