

Flash Note

Tuesday, 21 March 2017

Oil & Gas – Exploration Companies

PPL: Earnings reported at PKR 3.07/share in 2QFY17, up by +1%YoY

- Pakistan Petroleum Limited (PPL) announced financial results for 2QFY17 with earnings clocking in at PKR 6.05bn (EPS PKR 3.07) up by +1%YoY as compared to PKR 5.98bn (EPS PKR 3.03) in the same period last year.
- The company announced cash dividend of PKR 3.0/share for 2QFY17, along with the result.
- Revenues for 2QFY17 increased by +2%YoY to PKR 21.2bn as compared to PKR 20.7bn in the same period last year, likely on the back of +19%YoY rise in oil price, +23%/+17%YoY higher oil/gas production primarily from improved flows from Nashpa and Sui while commencement of production of Mardankhel.
- Field expenditure increased by +25%YoY to PKR 11.3bn mainly on the back of two dry well cost incurred at Miriwah East X-1 and Kotri X-2 during 2QFY17.
- However, other income declined by 27%YoY to PKR 1.11bn in 2QFY17 as compared to PKR 1.51bn in the same period last year likely owing to maturity of PIBs in Aug-16.
- Other operating expenses plummeted substantially by 91%YoY to PKR 0.23bn in 2QFY17 as compared to PKR 2.6bn in the corresponding period last year in the absence of impairment loss.
- Effective tax rate increased by +100bps to 26% in 2QFY17 as compared to 25% in the same period last year.
- To recall, PPL has restated its financial statements for FY13-FY16 owing to impairment loss adjustment on its investment in subsidiary (PPL Europe) owing to re-measurement of investment by Messrs. RPS Energy Consultants Limited. The company has removed the impairment loss from FY15 & FY16 accounts and recognized it for the years of FY13 and FY14.

Recommendation

We maintain our “BUY” call on PPL with our Dec-17 target price of PKR 218/share, offering +39% upside from its last closing. The company is currently trading at a FY17E P/E of 8.4x and offers a dividend yield of 5%.

Exhibit:

Financial Highlights

PKR'mn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Net Sales	21,215	20,702	2%	40,025	41,312	-3%
Field Expenditure	11,338	9,052	25%	20,103	20,042	0%
Royalty	2,472	2,399	3%	4,697	4,792	-2%
Gross Profit	7,406	9,251	-20%	15,225	16,477	-8%
Other Income	1,111	1,512	-27%	2,235	3,043	-27%
Oth. Operating Expense	227	2,624	-91%	868	3,058	-72%
Finance Cost	116	164	-30%	232	328	-29%
PBT	8,175	7,975	3%	16,360	16,133	1%
PAT	6,048	5,980	1%	11,797	11,896	-1%
EPS (PKR)	3.07	3.03	1%	5.98	6.03	-1%
DPS (PKR)	3.00	2.25		3.00	2.25	

Source: IGI Research and Company Financials

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

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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