

# Day Break

Wednesday, 25 May 2016

## Company Update

### Pak Petroleum Ltd.

Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price	176.7
Last Closing	154.0
Upside	15%

#### Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Market Cap (PKRbn   USDmn)	303.6   2,898.2
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	34.8	29.9	(8.8)
Low	114.3	101.1	101.1
High	155.2	155.2	174.4

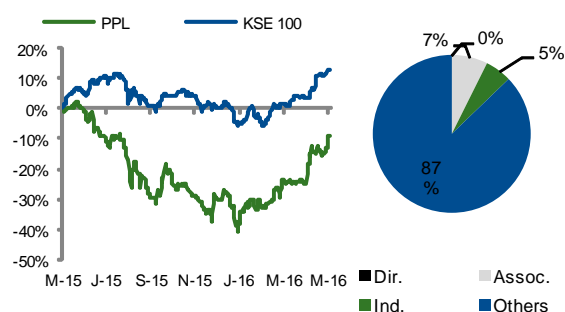
#### Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	104.4	96.0	105.3	117.9
Net Income	34.3	24.3	31.1	34.9
EPS (PKR)	17.4	12.3	15.8	17.7
DPS (PKR)	8.5	5.0	6.8	7.8
Total Assets	247.7	260.5	283.6	309.2
Total Equity	192.0	205.6	222.9	242.5

#### Key Financial Ratios

ROE (%)	18%	12%	14%	14%
P/E (x)	8.9	12.5	9.8	8.7
P/B (x)	1.6	1.5	1.4	1.3
DY (%)	5.5	3.2	4.4	5.0

#### 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, KSE 100 & IGI Research

Analyst

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## Oil & Gas Exploration

### PPL: Making Headway In Tough Times

- According to media reports, Pakistan Petroleum Limited's (PPL) largest gas producing asset, Sui has been granted 10 year lease extension which was due to expire on 31st May-16, after being granted a provisional extension of 1 year on 31st May-15.
- Under the arrangement, Sui field will now be priced under Petroleum Policy 2012 (PP12) at a discount of 55%. Other key arrangements include a) imposition of additional royalty of 10% to be collected from Sui field, to bring total royalty to 22.5% and, b) PKR 20bn to be spent on exploration of new reservoirs of oil and gas.
- We currently have a "BUY" call on PPL with our Dec-16 TP of PKR 177/share, offering +15% upside from its last closing of PKR 154/share. The company is currently trading at a FY16E P/E of 12.5x and offers a dividend yield of +3.2%.

#### Sui Lease Extended; New Terms of the Contract

According to media reports, Pakistan Petroleum Limited's (PPL) largest gas producing asset, Sui has been granted 10 year lease extension which was due to expire on 31<sup>st</sup> May-16, after being granted a provisional extension of 1 year on 31<sup>st</sup> May-15. The new agreement will be effective from Jun-15. One of the key highlights of the lease contract is linking of wellhead gas price of Sui field with Petroleum Policy 2012 (PP12). Based on new pricing policy, our estimated profitability for FY16E/FY17F has gone up by +11%/+16%.

#### Sui Field to be Priced under PP12

Under the arrangement, Sui field will now be priced under Petroleum Policy 2012 (PP12) at a discount of 55%. Sui field contributes around 52% of company's total gas production. With this revised pricing mechanism, we expect revenue contribution of Sui field to increase to 48% in FY17 from 35%. Based on our estimate, we expect 74% uptick in gas price for Sui field at oil assumption of USD 40/bbl in FY16. Moreover, retrospective earnings impact of PKR 4.0/share starting from Jul-15.

#### Additional Royalty - A bad Card

Apart from conversion of pricing mechanism to PP12, other key arrangements include imposition of additional royalty of 10% to be collected from Sui field by Baluchistan Government, to bring total

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royalty to 22.5%. This additional royalty according to our estimate will have an earnings impact of PKR 3.1/share in FY16. Moreover, PKR 20bn to be spent on exploration of new reservoirs of oil and gas over the 10-year period of lease term. Baluchistan government expects to raise PKR 74bn in royalty from Sui field over the 10-year period of lease term.

### Outlook; All Is Well for PPL

Apart from extension of Sui lease for 10-years, other growth drivers for PPL are a) conversion of Maramzai and Makori East to PP09 and Mamikhel to PP07 resulting in incremental gas price of USD 0.83/mmbtu for PP09 and USD 0.1/mmbtu for PP07, b) Mardankhel to start production from 4QFY16, priced under PP12 and, c) production from Hatim X-1 (Gambat South), Dhok Sultan X-1 (Dhok Sultan) and Nashpa X-5 (Nashpa) is expected to add 1%/3% and 2%/5% to oil and gas production in FY17/FY18 (4%/8% of FY17/FY18 earnings).

#### Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	35.0	35.0	45.0	10.9	15.0	16.2	165.1
Base	40.0	40.0	50.0	12.3	15.8	17.7	176.7
Bull	45.0	45.0	55.0	13.7	16.5	19.0	186.5

Source: IGI Research

### Recommendation

We currently have a “**BUY**” call on PPL with our Dec-16 TP of PKR 177/share, offering +15% upside from its last closing of PKR 154/share. The company is currently trading at a FY16E P/E of 12.5x and offers a dividend yield of +3.2%.

### Analyst Certification

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### 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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