

Day Break

Wednesday, 29 March 2017

COMPANY UPDATE

PAKISTAN PETROLEUM LIMITED OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price	205.4
Last Closing 28-Mar-17	152.9
Upside	34.4

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)	301.4 2,875.2
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(18.1) (2.3) 19.5
Low	155.0 148.4 127.4
High	193.3 193.3 193.3

Key Company Financials

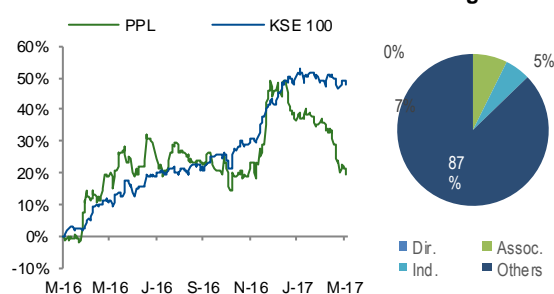
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	80.2	93.0	109.8	106.4
Net Income	17.24	27.9	34.3	32.1
EPS (PKR)	8.7	14.2	17.4	16.3
DPS (PKR)	5.8	6.3	7.8	7.3
Total Assets	272.5	284.6	304.4	322.9
Total Equity	272.5	284.6	304.4	322.9

Key Financial Ratios

ROE (%)	6.3	9.8	11.3	10.0
P/E (x)	17.5	10.8	8.8	9.4
P/B (x)	1.1	1.1	1.0	0.9
DY (%)	3.8	4.1	5.1	4.7

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

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Oil & Gas – Exploration Companies

PPL: Despite Downward Earning Revision, Fundamental depict a Strong “BUY”

- We have revised our earnings for Pakistan Petroleum Limited (PPL) for FY17E and FY18F down by 24%YoY and 15%YoY to PKR 14.4/share and PKR 17.4/share, respectively.
- However, we believe production enhancement through new discoveries and development wells such as Sui, Adhi and Nashpa warrant a +64%YoY and +21%YoY growth in earning in FY17E and FY18F, respectively.
- We maintain our “BUY” call on PPL with our Dec-17 target price of PKR 205/share, offering +34% upside from its last closing. The company is currently trading at a FY17E P/E of 10.8x and offers a dividend yield of 4.1%.

Earnings revised down based on delay in production commencement from new discoveries...

We have revised our earnings for Pakistan Petroleum Limited (PPL) for FY17E and FY18F down by 24%YoY and 15%YoY to PKR 14.4/share and PKR 17.4/share, respectively. The downside in our earnings emanates from a) delay in production commencement of new discoveries from Gambat South and Dhok Sultan, b) delay in official announcement of new Gas Price Agreement (GPA) for Sui field, c) higher exploration cost due to aggressive drilling plans, and d) lower other income as a result of maturity of PIBs in Aug-16. However, other operating expenses are expected to drop as impairment from the date of acquisition of PPL's subsidiary has been recorded in preceding years.

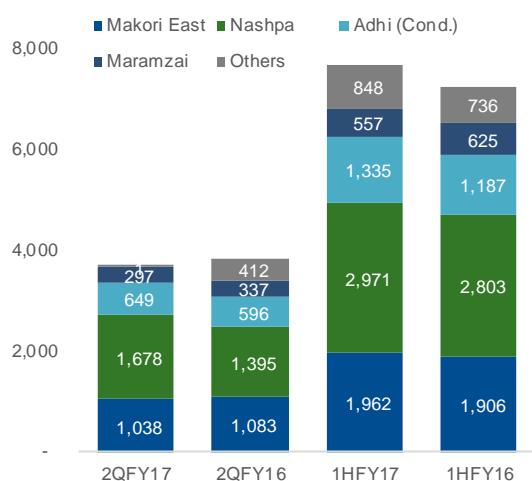
...despite delayed commencement, strong fundamentals should accrete high earning growth

We believe production enhancement through new discoveries and development wells such as Sui, Adhi and Nashpa warrant a +64%YoY and +21%YoY growth in earning in FY17E and FY18F, respectively.

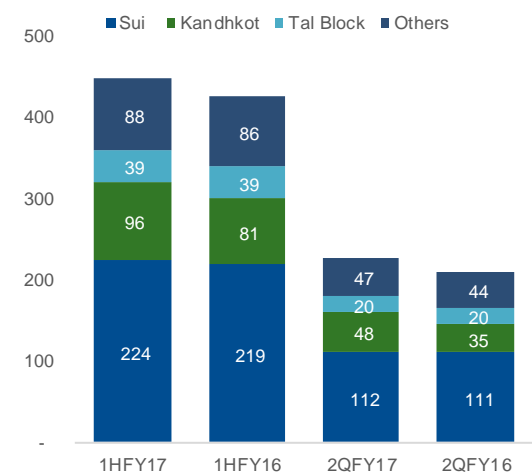
While absence of impairment loss, should allow for lower other expense in FY17E...

The company along with its FY16 financial results announced total impairment loss of PKR 6.6bn as calculated by Messrs. RPS Energy Consultants Limited. Total value of investment was evaluated at PKR 9.1bn (including working capital) by the consultant as against PKR 15.7bn determined by internal technical team of the company. The company had previously charged impairment loss of PKR 5.4bn during FY15 and additional charge comes at PKR 1.2bn (total impairment of PKR 6.6bn). Impairment charge has been excluded from FY15 profitability and has been booked against FY13/14 earnings. Henceforth, in the absence of further impairment loss other operating expenses are estimated to come down.

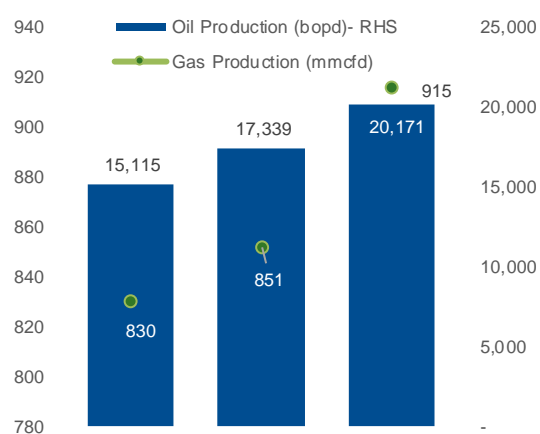
Total Oil Production in 1HFY17 (bopd)



Total Gas Production in 1HFY17 (mmcf)



Total Estimated Oil and Gas Production



Source: Company Financials, PPIS & IGI Research

...and new GPA offering higher wellhead price for Sui field will serve as key earning catalyst

While in addition to revised wellhead gas price for Sui field (yet to be incorporated) will serve as a key catalyst. We estimate wellhead price for Sui field under new GPA to have annualized earnings impact of PKR 3.62/share (after tax) and will lift our target price for PPL to PKR 237.6/share, providing an upside of +15.4% from current target price of PKR 205.9/share. Although an agreement has been signed between Federal Government, Government of Baluchistan and Ministry of Power and Natural Resources (MPNR), we still await formal notification from the company and OGRA to incorporate in our assumptions. We have removed revised wellhead price for Sui field from our assumption and incorporate once official notice is circulated.

However, higher exploration cost along with lower other income will keep earnings growth in FY17 in check

PPL spudded 12 exploratory and 11 development wells in FY16, resulting in six discoveries in company operated fields while four in partner operated. The company plans on spudding 13 exploratory and 9 development wells in FY17 out of which 4 exploratory and 6 development wells have been spudded so far. Whereas PPL has incurred 3 dry well cost up until Feb-17. As a result we foresee higher exploration cost to dilute earnings in FY17 while other income is expected to come down by 13%YoY in FY17 as a result of maturity of PIBs.

...as well as, delay in production commencement from new discoveries in Gambat South and Dhok Sultan

New discoveries in Gambat South and Dhok Sultan with a cumulative expected oil and gas production of 771bopd and 104mmcf, respectively is yet to commence production. As a result of delayed production start, we have moved our estimated production commencement date to 4QFY17 and 1QFY18, respectively. Whereby, we expect upcoming production from new discoveries to add PKR 1.99/share and PKR 5.57/share to company's earnings in FY17E and FY18F, respectively.

Recommendation

We maintain our "BUY" call on PPL with our Dec-17 target price of PKR 205/share, offering +34% upside from its last closing. The company is currently trading at a FY17E P/E of 10.8x and offers a dividend yield of 4.1%.

Exhibit:

Financial Highlights

PKRmn	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%
Gross Profit	7,406	9,251	-20%	15,225	16,477	-8%
Other Income	1,111	1,512	-27%	2,235	3,043	-27%
Other 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)
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 - 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.

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