

Day Break

Friday, 12 October 2018

COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	211.5
Last Closing: 11-Oct-18	182.6
Upside:	15.8
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Jun-19

Market Data

Bloomberg Tkr.	PPL PA		
Shares (mn)	2,267.5		
Free Float Shares (mn)	481.5		
Free Float Shares (%)	21.2%		
Market Cap (PKRbn USDmn)	414.1		3,158.1
Exchange	KSEALL		
Price Info.	90D	06M	12M
Abs. Return	0.8	(2.8)	23.2
Lo	174.9	174.9	144.8
Hi	189.6	193.9	193.9

Key Company Financials

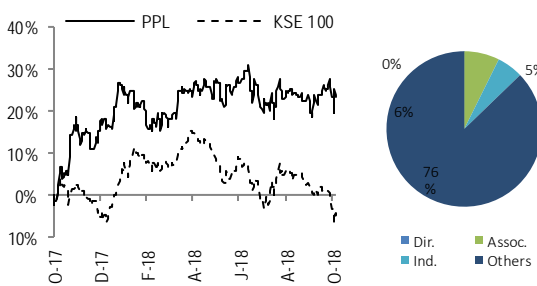
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	126.2	170.2	182.0	174.4
Net Income	45.7	57.4	61.5	56.4
EPS (PKR)	20.1	25.3	27.1	24.9
DPS (PKR)	5.5	10.0	11.0	10.0
Total Assets	282.7	367.3	416.5	453.2
Total Equity	240.4	277.8	314.7	348.6

Key Financial Ratios

ROE (%)	19.0	20.7	19.6	16.2
P/E (x)	9.1	7.2	6.7	7.3
P/B (x)	0.5	1.7	1.5	1.3
DY (%)	3.0	5.5	6.0	5.5

Relative Price Performance



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, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: Gambat South to uplift production growth with macroeconomic tailwinds in favor; 'BUY' maintained

- We have revised our earnings for Pakistan Petroleum Limited (PPL) after incorporating FY18 financial results by +10%/5%/7% for FY19/20/21F. We have revised our earnings on the back of a) delays in production from Gambat South as Gas Processing Facility (GPF) III & IV is expected to be completed by 4QFY19 and, b) higher exploration cost during FY19 owing to dry well costs incurred already in Khanjar and Qamar,
- We have also incorporated recent discoveries from Bolan East, Talagang, Yasar, Gulsher and Badeel adding nearly 1,387bopd and 18.4mmcf of oil and gas production from FY20 onwards. We have also incorporated recent 150bpd hike in interest rate in the last two months,
- We foresee PPL to post nearly 26% growth in earning in FY19. As a result, our rolled over and bonus adjusted Jun-19 target price is revised down slightly by 6% to PKR 211.5/share, offering +17% upside from last close

Estimates tweaked post FY18 result, delay in production and higher exploration cost; BUY maintained

We have revised our earnings for Pakistan Petroleum Limited (PPL) after incorporating FY18 financial results by +10%/5%/7% for FY19/20/21F. We have revised our earnings on the back of a) delays in production from Gambat South as Gas Processing Facility (GPF) III & IV is expected to be completed by 4QFY19 and, b) higher exploration cost during FY19 owing to dry well costs incurred already in Khanjar and Qamar. We have also incorporated recent discoveries from Bolan East, Talagang, Yasar, Gulsher and Badeel adding nearly 1,387bopd and 18.4mmcf of oil and gas production from FY20 onwards. We have also incorporated recent 150bpd hike in interest rate in the last two months.

We foresee PPL to post nearly 26% growth in earning in FY19. As a result, our rolled over and bonus adjusted Jun-19 target price is revised down slightly by 6% to PKR 211.5/share, offering +17% upside from last close.

Exhibit:

Key Financial Highlights

		FY16A	FY17A	FY18A	FY19F	FY20F	FY21F	FY22F
Oil price	USD/bbl	40.7	48.4	62.4	70.0	60.0	55.0	50.0
Exchange rate	PKR/USD	104.3	104.8	110.0	132.2	141.3	146.1	151.8
EPS	PKR	7.6	15.7	20.1	25.3	27.1	24.9	20.3
DPS	PKR	5.8	9.0	5.5	10.0	11.0	10.0	8.0

Source: IGI Research

Gambat south to start production post completion of GPF III & IV

New discoveries in Gambat South going back to 2015 have yet to commence production which were primarily gas based. This was due to lower handling capacity of GPF due to which PPL enhanced its capacity in GPF I/II and III/IV were likely to be completed by 1QFY19. However, due to likely delays with EPC contractor, the GPF III & IV are likely to be completed by 4QFY19 which will enhance Gambat South's handling capacity to 110mmcf which would allow for old discoveries to commence production. As a result we have moved our expectation for start of commercial production from Gambat South fields to starting from May-19 to 1QFY20.

PPL leads with 5 new discoveries in FY19TD

So far, PPL has encountered five new discoveries (2 wholly and 3 jointly owned) namely Bolan East (Ziarat: 40%), Talagang (Karsal (100%), Yasar (Kotri: 100%), Gulsher (Digri: 25%) and Badeel (Gambat South: 65%). These discoveries are expected to add 1,387bopd and 18.4mmcf of oil and gas production from FY20 onwards with cumulative annualized earnings impact of PKR 1.17/share. Furthermore, PPL has been aggressive to develop its mature fields such as Adhi, Kandhkot, Sui and Kotri blocks which will allow the company to sustain production levels from these field arrest natural depletion. However, Sui has been constantly facing natural depletion despite development efforts to sustain flows from the field which has diluted the impact of new discoveries coupled with delay in production from those fields.

8-10 wells planned for drilling in FY19

The Company drilled 11 exploratory wells and 7 appraisal/development wells in FY18 against target of 14 exploratory and 7 appraisal/development wells which yielded 8 number of discoveries (both exploratory and development/appraisal) in FY18 with a success ratio of 53%. PPL has planned to spud 11 exploratory and 11 appraisal/development wells in FY19 out of which 2 exploratory wells have been spudded so far in FY19TD while 3 exploratory wells from FY18 are still under drilling.

Realized oil price better than OGDC and MARI as new fields fetch higher price

Compared to OGDC and MARI, PPL's realized oil price stood at USD 61.6/bbl in FY18 which was due to higher number of new fields fetching higher oil price under Petroleum Policy 2012. This was due to commencement of production from Rizq, Sharf, Makori Deep, Tolanj and Tolanj West. As a result total oil proportion of production under PP12 has increased to 12% from previous 6% in FY17 which will further increase to 21% by post FY20.

Oil production to lift by 6% in FY19, however gas production to remain stagnant

We estimate PPL's oil production to grow by +6%YoY in FY19 on the back of inclusion of Adhi South and Kabir while improved flows from Nashpa/Mela despite natural depletion in Ghauri and Tal block. However, we foresee gas production to remain stagnant due to natural depletion in Sui and Qadirpur despite inclusion of gas production from Gambat south in 4QFY19.

Target price downgraded slightly to PKR 211.5/share offering +17% upside; 'BUY' call maintained

Our revised and rolled over Jun-19 target price of PKR 211.5/share offers +17% upside from last close, thus maintaining our 'BUY' stance on the scrip. PPL is currently trading at FY19E P/E of 7.2x. PPL remains our top pick alongside with MARI on the back of improvement in production from new discoveries which would add to production growth once GPF-III and IV get completed in 4QFY19.

Sensitivity of earnings to change in oil price

Exhibit:

EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) – Jun-19
	FY19	FY20	FY21	FY19	FY20	FY21	
Bear 2	60.0	50.0	45.0	22.4	23.7	21.0	190.3
Bear 1	65.0	55.0	50.0	23.8	25.4	23.1	201.0
Base	70.0	60.0	55.0	25.3	27.1	24.9	211.5
Bull 1	75.0	65.0	60.0	26.6	28.8	26.6	220.7
Bull 2	80.0	70.0	65.0	27.9	30.5	28.4	230.0

Source: IGI Research

No of Shares: 2,267.47 mn

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Time Horizon: Jun – 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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