

Day Break

Wednesday, 22 April 2020



COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price: Dec/20	159.5
Last Closing: 20-Apr-20	79.3
Upside (%):	101.1
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	8M

Market Data

Bloomberg Tkr.	PPL PA		
Shares (mn)	2,721.0		
Free Float Shares (mn)	666.1		
Free Float Shares (%)	24.5%		
Market Cap (PKRbn USDmn)	215.8	1,398.5	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(41.6)	(23.9)	(52.3)
Lo	69.1	69.1	69.1
Hi	149.9	151.8	180.2

Key Company Financials

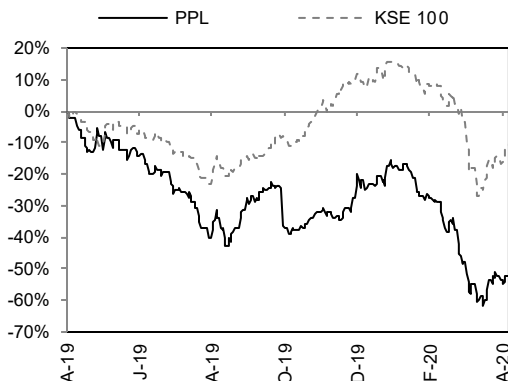
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	163.9	152.0	143.6	166.0
Net Income	61.6	42.8	42.5	52.9
EPS (PKR)	22.7	15.7	15.6	19.4
DPS (PKR)	2.0	1.5	3.0	4.0
Total Assets	458.3	481.1	498.6	529.5
Total Equity	298.6	342.8	376.8	419.1

Key Financial Ratios

ROE (%)	20.4	22.9	13.3	11.8
P/E (x)	3.5	5.0	5.1	4.1
P/B (x)	0.9	0.7	0.6	0.6
DY (%)	2.5	1.9	3.8	5.0

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: EPS to drop to by 1%YoY to PKR 5.18 amid lower production and oil prices; nil cash payout

- ✓ Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 23rd Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 14.09bn (EPS PKR 5.18), down by 1%YoY,
- ✓ We estimate decline in earnings on the back a) 15%YoY decline in oil prices, b) lower oil and gas production down by 6%/8%YoY and, c) higher effective tax rate. However, weaker PKR is likely to keep earnings decline restricted. Moreover we expect PPL is book exchange gains which is likely to bring other charges down by 58%YoY amid PKR depreciation,
- ✓ On a quarterly basis, earnings are expected to increase by +37%QoQ on the back of 76%QoQ drop in exploration cost as commercially unviable fields were booked as dry wells during 2QFY20. Furthermore, PPL is likely to book exchange gains amid weaker PKR closing towards Mar-20 end,
- ✓ We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 159/share offering 101% upside from last close. The company is currently trading at FY21 P/E of 5.1x.

Earnings to clock in at PKR 5.18/share for 3QFY20, down by 1%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 23rd Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 14.09bn (EPS PKR 5.18), down by 1%YoY, compared to PKR 14.21bn (EPS PKR 5.22) in the same period last year. We estimate decline in earnings on the back a) 15%YoY decline in oil prices, b) lower oil and gas production down by 6%/8%YoY and, c) higher effective tax rate. However, weaker PKR is likely to keep earnings decline restricted. Moreover we expect PPL is book exchange gains which is likely to bring other charges down by 58%YoY amid PKR depreciation at the end of Mar-20. Exploration cost are expected to drop amid lower seismic activity. We do not expect any cash dividend payout for the 3QFY20 on account of cash constraints due to elevated receivables.

Exhibit: PPL Financial Highlights

PKRmn	3QFY20E	3QFY19	YoY	9MFY20E	9MFY19	YoY
Net Sales	38,788	40,391	-4%	124,198	119,201	4%
Operating Expense	11,031	10,369	6%	32,370	29,825	9%
Royalty & Other Levies	5,864	6,048	-3%	18,545	17,659	5%
Gross Profit	21,893	23,974	-9%	73,283	71,718	2%
Exploration Expense	2,152	4,811	-55%	13,893	12,809	8%
Administrative Expense	723	548	32%	2,059	1,627	27%
Other Income	960	1,303	-26%	3,427	8,171	-58%
Operating Expense	734	1,748	-58%	8,058	6,050	33%
EBIT	19,244	18,169	6%	52,700	59,403	-11%
Finance Cost	204	235	-13%	723	499	45%
PBT	19,040	17,934	6%	51,976	58,904	-12%
PAT	14,090	14,214	-1%	38,644	45,254	-15%
EPS (PKR)	5.18	5.22	-1%	14.20	16.63	-15%
DPS (PKR)	-	-	-	-	-	-

Source: IGI Research and Company Financials No of Shares: 2,720.97mn

Lower exploration cost to lift earnings on quarterly basis

On a quarterly basis, earnings are expected to increase by +37%QoQ on the back of 76%QoQ drop in exploration cost as commercially unviable fields were booked as dry wells during 2QFY20. Furthermore, PPL is likely to book exchange gains amid weaker PKR closing towards Mar-20 end compared to exchange loss of PKR 76mn in 2QFY20. Growth in earnings is likely to be limited by flattish oil & gas production (as only last week of Mar-20 witnessed production decline amid Covid-19 lockdown).

Oil and Gas production down by 6%/8%YoY during 3QFY20

Total gas production for the Company fell down by 8%YoY on the back of nearly lower production from Kandhkot. This brings total gas production for 9MFY20 to 786mmcf down by 9%YoY. Oil production also fell by 6%YoY on account of lower production from Nashpa, Adhi and Tal block however addition of Dhok Sultan in Nov-19 restricted overall decline in oil production. This brings total oil production for 9MFY20 to 14,898bopd down by 5%YoY.

Exhibit: PPL oil production (bopd)

Oil production remained low due to lower production from Nashpa, Tal Block and Adhi

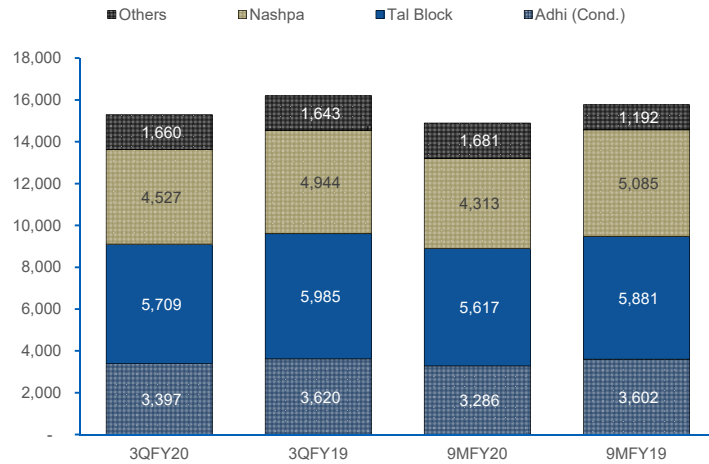
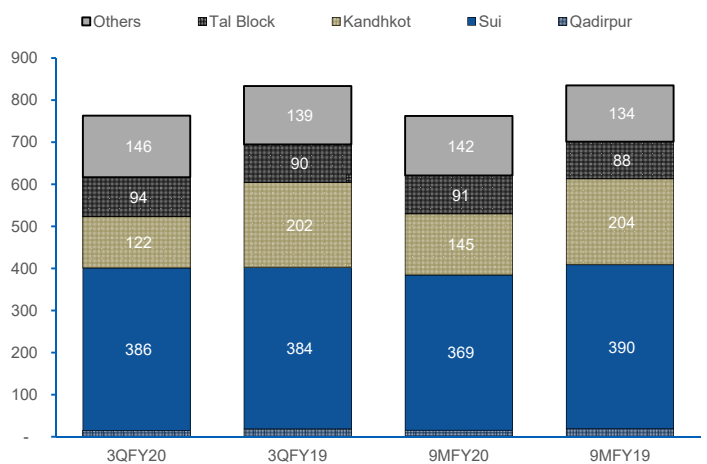


Exhibit: PPL gas production (mmcf)

Gas production remained low due to lower production from Kandhkot and Qadirpur



Recommendation

We recommend a ‘BUY’ stance on PPL with our Dec-20 target price of PKR 159/share offering 101% upside from last close. The company is currently trading at FY21 P/E of 5.1x.