

Day Break

Thursday, 10 September 2020



COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price: Dec-20	159.5
Last Closing: 9-Sep-20	99.8
Upside (%):	59.8
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	4M

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)	271.6 1,628.5
Exchange	KSE 100
Price Info.	90D 06M 12M
Abs. Return	5.0 (4.1) (11.8)
Lo	86.8 69.1 69.1
Hi	104.9 104.9 151.8

Key Company Financials

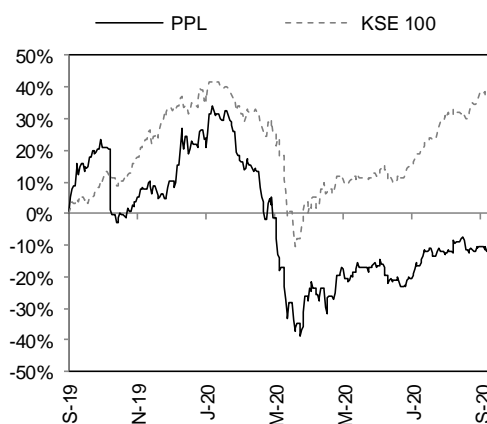
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	163.9	157.2	143.6	166.0
Net Income	61.6	46.3	42.5	52.9
EPS (PKR)	22.7	17.0	15.6	19.4
DPS (PKR)	2.0	-	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	14.4	11.8
P/E (x)	4.4	5.9	6.4	5.1
P/B (x)	1.1	0.9	0.8	0.7
DY (%)	2.0	-	3.0	4.0

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: Lower oil prices, production and other income to drag 4QFY20 EPS to PKR 2.59 down by 57%YoY

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 11th Sep-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 7.06bn (EPS PKR 2.59), down by 57% YoY.
- We estimate decline in earnings on the back a) 61% YoY drop in oil price despite 11% YoY PKR depreciation, b) lower other income in the absence hefty exchange gains despite lower exploration cost as Kekra Dry well cost was booked in 4QFY19 and, c) lower oil and gas production amid Covid-19 lockdowns.
- We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 160/share offering 60% upside from last close. The company is currently trading at FY21 P/E of 6.4x.

Earnings to clock in at PKR 2.59/share for 4QFY20, down by 57%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 11th Sep-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 7.06bn (EPS PKR 2.59), down by 57% YoY, compared to PKR 16.38bn (EPS PKR 6.02) in the same period last year. We estimate decline in earnings on the back a) 61% YoY drop in oil price despite 11% YoY PKR depreciation, b) lower other income in the absence hefty exchange gains despite lower exploration cost as Kekra Dry well cost was booked in 4QFY19 and, c) lower oil and gas production amid Covid-19 lockdowns. We have assumed PPL to book cost relating to Dhok Sultan South X-1 which was temporarily suspended in Jun-20 to the tune of PKR 0.7/share.

This brings total profitability for FY20E to PKR 46.29bn (EPS PKR 17.01), down by 25% YoY, compared to PKR 61.63bn (EPS PKR 22.65) in the same period last year. We expect PPL to withhold cash payout whereas we don't rule out a possibility of 10% bonus issue.

Exhibit: PPL Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Net Sales	31,011	44,689	-31%	157,239	163,890	-4%
Operating Expense	11,022	10,581	4%	44,069	40,152	10%
Royalty & Other Levies	5,179	6,670	-22%	24,066	24,329	-1%
Gross Profit	14,810	27,437	-46%	89,105	99,408	-10%
Exploration Expense	4,050	12,413	-67%	17,811	24,858	-28%
Administrative Expense	721	734	-2%	2,885	2,240	29%
Other Income	1,249	8,357	-85%	5,357	16,528	-68%
Oth. Operating Expense	1,547	2,116	-27%	8,705	8,166	7%
EBIT	9,742	20,532	-53%	65,060	80,672	-19%
Finance Cost	204	242	-16%	992	741	34%
PBT	9,538	20,290	-53%	64,068	79,931	-20%
PAT	7,058	16,379	-57%	46,287	61,632	-25%
EPS (PKR)	2.59	6.02		17.01	22.65	
DPS (PKR)	-	2.00		-	2.00	

Source: IGI Research and Company Financials

No of Shares: 2,720.97mn

Lower production, oil prices and higher exploration cost to drag earnings on quarterly basis

On quarterly basis, earnings are expected to drop by 52% QoQ on the back of 23%/7% QoQ decline in oil/gas production, higher exploration cost and 50% QoQ drop in oil prices. However, earnings decline is likely to be limited by average exchange rate appreciation of 5% QoQ.

Oil and gas production dropped by 32%/15% YoY during 4QFY20

Total oil production for the Company declined by 32% YoY owing to drop in flows from Nashpa, Adhi and Tal block amid Covid-19 lockdowns. As a result total gas production for FY20 is down by 11% YoY. Gas production declined by 15% YoY on account of lower production from Kandhkot, Qadirpur, Tal Block, Adhi and Nashpa. This brings total gas production to 703mmcf/d down by 3% YoY in FY20.

Recommendation

We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 160/share offering 60% upside from last close. The company is currently trading at FY21 P/E of 6.4x.

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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 – 2020

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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