

Flash Note

Tuesday, 25 February 2020

Oil & Gas - Exploration Companies

Pakistan Petroleum Limited (PPL)

Higher exploration cost drags 2QFY20 EPS to 3.79 down by 39%YoY; Nil cash payout

- Pakistan Petroleum Limited (PPL) announced its financial results for 2QFY20 with earnings clocking in at PKR 10.32bn (EPS PKR 3.79) as compared to PKR 16.85bn (EPS PKR 6.19) in the same period last year. On a sequential basis, earnings are down by 28%QoQ. This brings total profitability to PKR 24.55bn (EPS PKR 9.02) down by 21%YoY during 1HFY20 compared to PKR 31.04bn (EPS PKR 11.41) in the same period last year.
- The Company did not announce any cash dividend for 2QFY20.
- We attribute this decline in earnings during 2QFY20 to a) +85% YoY rise in exploration cost, b) 68% YoY drop in other income in the absence of exchange gains and, c) +17% YoY increase in operating expenses.
- Net Revenues increased by +8%YoY to PKR 43.65bn during 2QFY20, likely on the back of +16%YoY PKR depreciation despite lower oil prices and production.
- Operating cost increased by +17%YoY to PKR 12.13bn during 2QFY20 compared to PKR 10.37bn reported in the corresponding period last year.
- Exploration cost leaped up by +85%YoY to PKR 8.88bn during 2QFY20 compared to PKR 4.81bn in the same period last year likely due to dry well cost incurred in Nooh well (Hab Block). However, despite no data acquisition during the quarter exploration cost jumped substantially which in our view is likely due to dry well costs booked relating to previous potential discoveries which were now deemed as not commercially viable.
- Other income dropped by 68%YoY to PKR 1.59bn during 2QFY20 compared to PKR 4.88bn in the similar period last year likely in the absence of exchange gains realized on foreign currency investments.
- Total effective tax rate stood at 25.0% during 2QFY20 against 21.4% (1QFY20: 25.8%) in the same period last year bringing total effective tax rate to 25.5% for 1HFY20 compared to 24.2% in the similar period last year.

Exhibit: PPL Financial Highlights

PKRmn	2QFY20	2QFY19	YoY	1QFY20	QoQ	1HFY20	1HFY19	YoY
Net Sales	43,651	40,594	8%	41,759	5%	85,410	78,810	8%
Operating Expense	12,128	10,369	17%	9,211	32%	21,339	19,456	10%
Royalty & Other Levies	6,541	5,974	9%	6,140	7%	12,681	11,611	9%
Gross Profit	24,982	24,251	3%	26,409	-5%	51,390	47,744	8%
Exploration Expense	8,878	4,811	85%	2,864	210%	11,742	7,998	47%
Administrative Expense	725	548	32%	612	18%	1,336	1,079	24%
Other Income	1,585	4,883	-68%	882	80%	2,467	6,867	-64%
Oth. Operating Expense	2,967	2,201	35%	4,357	-32%	7,323	4,301	70%
EBIT	13,998	21,573	-35%	19,458	-28%	33,456	41,233	-19%
Finance Cost	248	130	91%	271	-8%	519	264	97%
PBT	13,749	21,443	-36%	19,187	-28%	32,936	40,969	-20%
PAT	10,317	16,851	-39%	14,237	-28%	24,554	31,039	-21%
EPS (PKR)	3.79	6.19		5.23		9.02	11.41	
DPS (PKR)	-	-		-		-	-	

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

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