

Flash Note

Wednesday, 18 January 2017

Oil & Gas –Exploration and Production

PPL: Earnings reported at PKR 8.74/share in FY16, Impairment loss charged against 2013/14 profitability

- PPL announced financial results for FY16 with earnings clocking in at PKR 17.2bn (EPS PKR 8.74) down by 55%YoY as compared to PKR 38.4bn (EPS PKR 19.47) in FY15. The company announced cash dividend of PKR 3.5/share for 4QFY16 taking total dividend for FY16 to PKR 5.75/share.
- Key highlight of the result announcement includes 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 charged against FY13/14 earnings.
- Total revenue declined by 24%YoY to PKR 80bn in FY16 as compared to PKR 104bn in FY15 owing to 44%YoY slump in oil prices.
- Field expenditure inclined by +6%YoY to PKR 45bn in FY16 on the back of increased drilling activity primarily focused on development wells at Adhi and Sui.
- Effective tax rate increased by 746bps to 35% as compared to 28% in the same period last year.

Recommendation

We maintain our **“BUY”** call on PPL with our Dec-17 with target price of PKR 218/share, offering +21% upside from its last closing. The company is currently trading at a FY17E P/E of 9.7x and implied oil price of USD 35.9/bbl.

Exhibit:

Financial Highlights

PKRmn	4QFY16	4QFY15	YoY	FY16	FY15*	YoY
Net Sales	20,919	24,254	-14%	80,151	104,838	-24%
Field Expenditure	13,871	13,842	0%	44,952	42,289	6%
Royalty	2,398	2,795	-14%	9,219	12,227	-25%
Gross Profit	4,649	7,616	-39%	25,980	50,322	-48%
Other Income	1,256	1,563	-20%	5,418	7,611	-29%
Oth. Operating Expense **	685	(688)	-200%	4,032	4,063	-1%
Finance Cost	166	139	19%	659	554	19%
PBT	5,054	9,727	-48%	26,707	53,315	-50%
PAT	1,677	8,451	-80%	17,242	38,399	-55%
EPS (PKR)	0.85	4.28	-80%	8.74	19.47	-55%
DPS (PKR)	3.50	4.00		5.75	8.50	

Source: IGI Research and Company Financials

* Restated for FY15, ** Impairment charges adjusted in 2013/2014 for FY15

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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)
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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.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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