

Day Break

Thursday, 22 February 2018

COMPANY UPDATE

Pakistan Petroleum Limited
Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	237.2
Last Closing: 21-Feb-18	198.5
Upside:	19.5
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-18

Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Free Float Shares (mn)	481.5
Free Float Shares (%)	24.4%
Market Cap (PKRbn USDmn)	391.4 3,538.7
Exchange	KSE 100
Price Info.	90D 06M 12M
Abs. Return	(2.4) 13.1 10.3
Lo	189.0 159.4 143.7
Hi	216.1 216.1 216.1

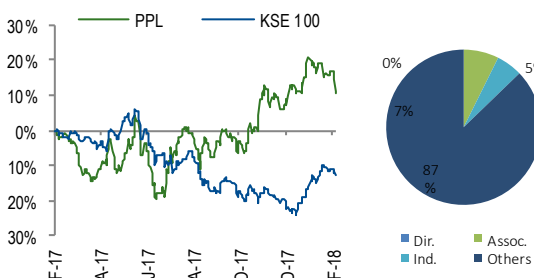
Key Company Financials

Period End: Jun				
PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	87.3	131.5	148.0	148.7
Net Income	35.7	44.7	48.5	47.6
EPS (PKR)	18.1	22.7	24.6	24.2
DPS (PKR)	9.0	10.0	10.5	10.5
Total Assets	282.7	350.1	375.1	396.3
Total Equity	207.3	241.1	268.2	294.9

Key Financial Ratios

ROE (%)	17.2	18.5	18.1	16.1
P/E (x)	11.0	8.8	8.1	8.2
P/B (x)	1.9	1.6	1.5	1.3
DY (%)	4.5	5.0	5.3	5.3

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: Higher Oil prices and wellhead price for Sui field to lift EPS by +68%YoY to PKR 5.14 in 2QFY18

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 23rd Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 10.14bn (EPS PKR 5.14) up by +68%YoY.
- Growth in earnings is also attributable to a) +25%YoY rise in oil prices, b) higher gas price for Sui field under revised Gas Price Agreement (GPA) and, c) lower exploration cost in the absence of dry well cost.
- We have not reversed Tal block well head gas price incentive as notified by the company in its notice through Pakistan Stock Exchange (PSX) and continue to record higher wellhead price incentive under the Supplemental Agreement signed for conversion to Petroleum Policy 2012.
- We have a 'BUY' call on PPL with our Dec-18 target price of PKR 237/share, offering +19.5% upside from its last close. The company is currently trading at FY18E P/E of 8.8x and offers a dividend yield of 5%.

Earnings to clock in at PKR 5.14/share for 2QFY18, up by +68%YoY...

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 23rd Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 10.14bn (EPS PKR 5.14) up by +68%YoY compared to PKR 6.05bn (EPS PKR 3.07) in the same period last year.

Growth in earnings is also attributable to a) +25%YoY rise in oil prices, b) higher gas price for Sui field under revised Gas Price Agreement (GPA) and, c) lower exploration cost in the absence of dry well cost. However, earnings growth is expected to be hampered by 13%/1%YoY drop in oil/gas production during 2QFY18 owing to lower demand from refineries for oil and annual turnaround of customer plants leading to lower production of gas. We have not reversed Tal block well head gas price incentive as notified by the company in its notice through Pakistan Stock Exchange (PSX) and continue to record higher wellhead price incentive under the Supplemental Agreement signed for conversion to Petroleum Policy 2012. We expect the company to announce cash dividend of PKR 5.00/share along with the result.

...bringing 1HFY18 EPS to PKR 11.57, up by +93%YoY

As a result, earnings for 1HFY18 are expected to augment by +93%YoY to PKR 22.81bn (EPS PKR 11.57), on the back of a) +1.0%/+9.4%YoY increase in oil/gas production, b) 72% higher gas price for Sui field under revised GPA and, c) +21%YoY rise in oil prices.

Exhibit:

Financial Highlights

PKRmn	1QFY18E	1QFY17	YoY	1HFY18E	1HFY17	QoQ
Net Sales	30,400	21,215	43%	62,612	40,025	56%
Field Expenditure	11,153	11,338	-2%	19,343	20,103	-4%
Royalty	4,687	2,472	90%	9,577	4,697	104%
Gross Profit	14,560	7,406	97%	33,691	15,225	121%
Other Income	1,118	1,111	1%	2,296	2,235	3%
Other Expense	1,065	227	369%	2,608	868	200%
Finance Cost	135	116	17%	237	232	2%
PBT	14,479	8,175	77%	33,142	16,360	103%
PAT	10,135	6,048	68%	22,814	11,797	93%
EPS (PKR)	5.14	3.07	68%	11.57	5.98	93%
DPS (PKR)	5.00	3.00		5.00	3.00	

Source: IGI Research and Company Financials

No of Shares: 1,972mn

Oil/gas production down by 13%/1%YoY in 2QFY18

PPL reported a 13%YoY decline in oil production to 14,776bopd during 2QFY18 owing to lower demand from refineries post closure of FO based power plants leading to lower production from Nashpa and Tal block. Gas production declined by 879mmcf on the back of lower production from Kandhkot, Qadirpur and Sui while higher production from Adhi and Maramzai supported the decline in production.

Exhibit:

Oil Production for 2QFY18 - (000'bbls)

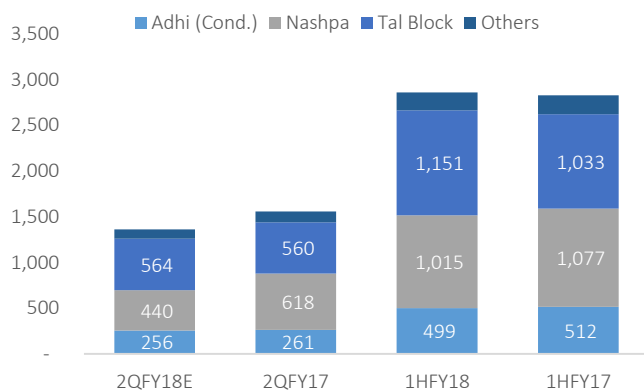
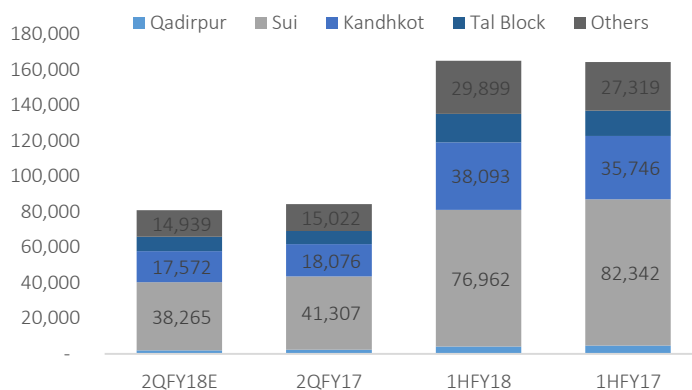


Exhibit:

Gas production for 2QFY18 - (mmcf)



Source: IGI Research, Company Financials

Recommendation

We have a 'BUY' call on PPL with our Dec-18 target price of PKR 237/share, offering +19.5% upside from its last close. The company is currently trading at FY18E P/E of 8.8x and offers a dividend yield of 5%.

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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)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

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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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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