

Flash Note

Tuesday, 28 February 2017

Oil & Gas – Exploration Companies

PPL: Earnings reported at PKR 2.92/share in 1QFY17, down by 3%YoY

- Pakistan Petroleum Limited (PPL) announced financial results for 1QFY17 with earnings clocking in at PKR 5.75bn (EPS PKR 2.92) down by 3%YoY as compared to PKR 5.92bn (EPS PKR 3.00) in the same period last year.
- Revenues for 1QFY17 declined by 9%YoY to PKR 18.8bn as compared to PKR 20.6bn in the same period last year, likely on the back of 14%YoY drop in oil price.
- Gross margins improved by +650bps to 42% in 1QFY17 owing to 20%YoY decrease in field expenditure to PKR 8.8bn as compared to PKR 10.9bn in the corresponding period last year.
- However, other income declined by 27%YoY to PKR 1.12bn in 1QFY17 as compared to PKR 1.53bn in the same period last year while other operating expense leaped up by +48%YoY to PKR 0.64bn.
- Profit before tax remained steady while profit after tax declined by 3%YoY owing to increase in effective tax rate by 228bps to 30% as compared to 27% in the same period last year.
- To recall, PPL has restated its financial statements for FY13-FY16 owing to impairment loss adjustment on its investment in subsidiary (PPL Europe) owing to re-measurement of investment by Messrs. RPS Energy Consultants Limited. The company has removed the impairment loss from FY15 & FY16 accounts and recognized it for the years of FY13 and FY14.

Recommendation

We maintain our “BUY” call on PPL with our Dec-17 target price of PKR 218/share, offering +24% upside from its last closing. The company is currently trading at a FY17E P/E of 9.4x and offers a dividend yield of 5%.

Exhibit:

Financial Highlights

PKR'mn	1QFY17	1QFY16 *	YoY
Net Sales	18,810	20,610	-9%
Field Expenditure	8,765	10,990	-20%
Royalty	2,226	2,393	-7%
Gross Profit	7,818	7,227	8%
Other Income	1,124	1,530	-27%
Other. Operating Expense	641	435	48%
Finance Cost	117	164	-29%
PBT	8,184	8,158	0%
PAT	5,749	5,917	-3%
EPS (PKR)	2.92	3.00	-3%
DPS (PKR)	-	-	

Source: IGI Research and Company Financials

* Restated

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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)
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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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