

Day Break

Wednesday, 11 May 2016

Company Update

Pak Petroleum Ltd.

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	171.2
Last Closing	144.6
Upside	18%

Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Market Cap (PKRbn USDmn)	285.0 2,722.2
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	23.3	17.8	(18.8)
Low	112.6	101.1	101.1
High	148.7	148.7	180.1

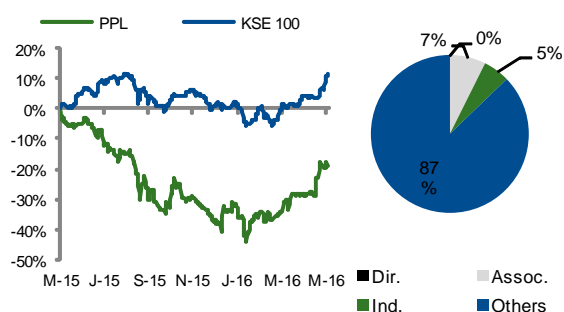
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	104.4	77.9	87.8	96.8
Net Income	34.3	22.0	26.7	29.9
EPS (PKR)	17.4	11.1	13.5	15.2
DPS (PKR)	8.5	5.5	6.5	7.5
Total Assets	247.7	251.6	270.3	290.0
Total Equity	192.0	203.2	216.8	232.1

Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	18%	11%	12%	13%
P/E (x)	8.3	13.0	10.7	9.5
P/B (x)	1.5	1.4	1.3	1.2
DY (%)	5.9	3.8	4.5	5.2

Relative Price Performance & Shareholding



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, KSE 100 & IGI Research

Analyst

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Oil & Gas Exploration

PPL: Dry Well Cost Shed Earnings in 3QFY16 to PKR 1.93/share

- Pakistan Petroleum Limited (PPL) reported reduction in earnings by 51%YoY to PKR 3.8bn (EPS PKR 1.93) in 3QFY16 as compared to PKR 7.8bn (EPS PKR 3.96) in the same period last year.
- Government has recently notified higher gas price for Maramzai, Mamikhel and Makori East for the period from 1st Jul-15 to 31st Dec-15, where Maramzai and Makori East will be priced under PP09 and Mamikhel to be priced under PP07.
- We currently have a "BUY" call on PPL with our Dec-16 TP of PKR 171/share, offering +18% upside from its last closing of PKR 144/share. The company is currently trading at a FY16E P/E of 13.0x and offers a dividend yield of +3.8%.

Earnings Tumbled; Down by 30%YoY to PKR 2.98/share in 2QFY16

Pakistan Petroleum Limited (PPL) reported reduction in earnings by 51%YoY to PKR 3.8bn (EPS PKR 1.93) in 3QFY16 as compared to PKR 7.8bn (EPS PKR 3.96) in the same period last year. Earnings petered out owing to a) 42%YoY fall in oil prices, b) dry well cost booked in Lakki X-1 and Malgin X-1 and, c) 12%YoY and 3%YoY decline in oil and gas production, respectively. Cumulative earnings for 9MFY16 now stand at PKR 15.6bn (EPS PKR 7.89) as compared to PKR 30.0bn (EPS PKR 15.19) in the corresponding period last year.

Exhibit: PPL Production

	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil (bbl)	1,189,652	1,356,705	-12%	3,790,665	4,114,691	-8%
Gas (mmcf)	64,960	66,859	-3%	203,431	199,751	2%
LPG (Tons)	18,295	16,033	14%	48,826	42,554	15%

Source: IGI Research, Company Financials, PPIS

Lower Production and Prices taking its toll on Revenues

Oil revenues contracted by 43%YoY to PKR 3.6bn in 3QFY16 owing to 42%YoY slump in benchmark oil price to USD 29.7/bbl (Arab Light) and 12%YoY decline in oil production. Nashpa, Adhi and Makori East, according to our estimates contributed around 80% in total oil production during 3QFY16 (81% during 1HFY16). Realized

Wednesday, 11 May 2016

price for oil stood at USD 28.83/bbl during 3QFY16. Gas revenues witnessed a dip of 12%YoY to PKR 13.6bn in 3QFY16 owing to decline in prices where realized price for gas stood at PKR 215.3/mmcf (PKR 237.86/mmcf during 3QFY15). According to our estimates, Sui and Kandhkot contributed around 70% in the total gas production in 3QFY16/9MFY16. LPG revenues declined by 18%YoY owing to +28%YoY plunge in prices.

Exhibit: PPL Revenues

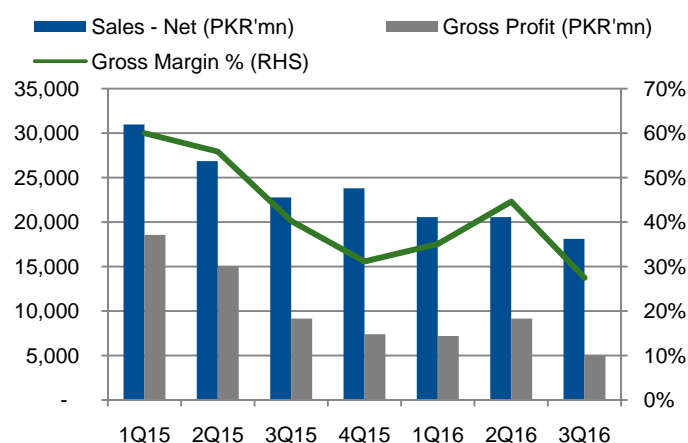
PKR'mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil	3,592	6,258	-43%	10,102	20,428	-51%
Gas	13,618	15,484	-12%	27,080	31,481	-14%
LPG	770	942	-18%	1,351	1,742	-22%

Source: IGI Research, Company Financial

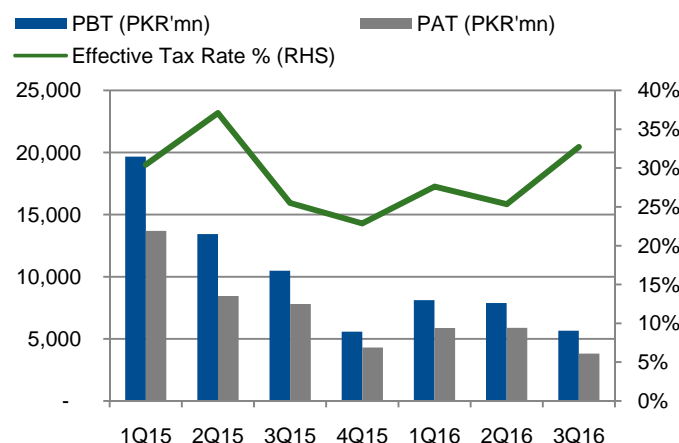
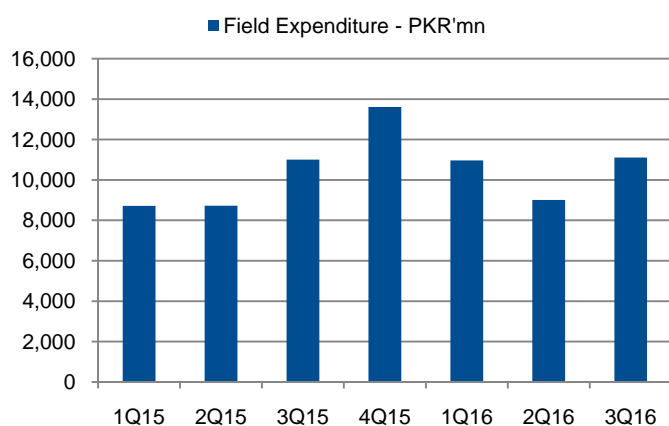
Note* Net sales estimated based on actual gross sales reported in company's financials

Exhibit: Realized Price

	3QFY16	3QFY15	YoY
Oil (USD/bbl)	28.83	45.48	-37%
Gas (PKR/mmcf)	215.30	237.86	-9%

Exhibit: Gross Margins Dropping during 3QFY16 owing to dry well Cost incurred

Source: IGI Research, Company's Financials

Exhibit: Effective tax rate at 33% for the 3QFY16, highest so far in FY16**Exhibit: Field Expenditure (Quarterly)**

Source: IGI Research, Company's Financials

Wednesday, 11 May 2016

Sui Mining Lease Extension and Uncapped Wellhead Gas Prices

According to management, production lease for Sui mining expired on 31st May-15 which was further extended till 31st May-16. Company expects renewal of the lease, however without renewal, it can cause ~52% decline in overall gas production. Moreover, almost 80% of the company's production falls under uncapped wellhead gas price, exposing it to higher risk of lower revenues particularly when oil prices are lower. Whereas, commencement of production from Mardankhel and Nashpa fields in FY17 would provide some resistance to falling profitability.

Higher gas price and Gambat South to lift Earnings from FY17 Onwards

Government has recently notified higher gas price for Maramzai, Mamikhel and Makori East for the period from 1st Jul-15 to 31st Dec-15, where Maramzai and Makori East will be priced under PP09 and Mamikhel to be priced under PP07. PP09 and PP07 offer incremental gas prices of USD 0.83/mmbtu and USD 0.1/mmbtu respectively, at oil price of USD 40/bbl. Furthermore, production from Hatim X-1 (Gambat South), Dhok Sultan X-1 (Dhok Sultan) and Nashpa X-5 (Nashpa) is expected to add 1%/3% and 2%/5% to oil and gas production in FY17/FY18 (4%/8% of FY17/FY18 earnings).

Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	33.0	35.0	45.0	9.7	12.2	13.9	160.8
Base	38.0	40.0	50.0	11.1	13.5	15.2	171.2
Bull	43.0	45.0	55.0	12.1	14.9	16.4	180.8

Source: IGI Research

Recommendation

We currently have a **“BUY”** call on PPL with our Dec-16 TP of PKR 171/share, offering +18% upside from its last closing of PKR 144/share. The company is currently trading at a FY16E P/E of 13.0x and offers a dividend yield of +3.8%.

Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	18,114	22,774	-20%	59,233	80,584	-26%
Field Expenditure	11,107	11,007	1%	31,081	28,447	9%
Royalty	2,037	2,612	-22%	6,821	9,432	-28%
Gross Profit	4,970	9,155	-46%	21,331	42,706	-50%
Other Income	1,152	2,017	-43%	4,163	6,048	-31%
Other Operating Exp	298	552	-46%	3,347	4,751	-30%
Finance Cost	165	138	19%	493	415	19%
PBT	5,658	10,482	-46%	21,653	43,588	-50%
PAT	3,807	7,809	-51%	15,565	29,948	-48%
EPS (PKR)	1.93	3.96	-51%	7.89	15.19	-48%
DPS (PKR)	-	-		2.25	4.50	

Source: IGI Research and Company Financials

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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