

Day Break

Monday, 24 February 2020

COMPANY UPDATE

Pakistan Petroleum Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price: Dec/20	197.0
Last Closing: 21-Feb-20	128.5
Upside:	53.4
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	10M

Market Data

Bloomberg Tkr.	PPL PA		
Shares (mn)	2,721.0		
Free Float Shares (mn)	666.1		
Free Float Shares (%)	24.5%		
Market Cap (PKRbn USDmn)	349.5	2,264.7	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	7.2	15.4	(30.9)
Lo	118.4	103.4	103.4
Hi	151.8	151.8	191.5

Key Company Financials

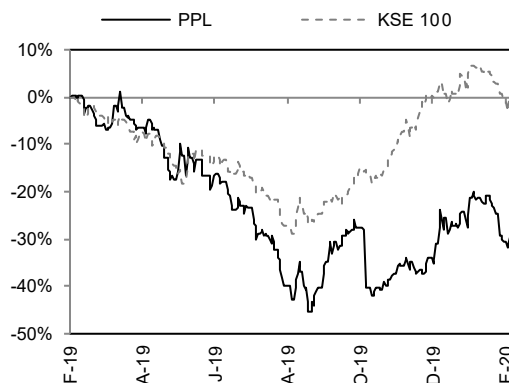
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	163.9	176.2	177.8	191.5
Net Income	61.6	61.9	60.0	64.5
EPS (PKR)	22.7	22.7	22.0	23.7
DPS (PKR)	2.0	4.0	8.5	9.0
Total Assets	458.3	478.3	520.0	558.6
Total Equity	298.6	355.1	391.1	429.8

Key Financial Ratios

ROE (%)	20.4	22.9	18.9	16.1
P/E (x)	5.7	5.7	5.8	5.4
P/B (x)	1.5	1.2	1.0	0.9
DY (%)	1.6	3.1	6.6	7.0

Relative Price Performance



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Oil & Gas Exploration Companies

PPL: EPS to drop to PKR 5.48 amid lower production and absence of exchange gains; nil cash payout

- ✓ Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 25th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 14.92bn (EPS PKR 5.48), down by 11%YoY,
- ✓ We estimate decline in earnings on the back a) 78%YoY drop in other income in the absence of exchange gains of PKR 4.1bn recorded in same period last year, b) lower oil and gas production down by 4%/10%YoY and, c) higher effective tax rate,
- ✓ On a quarterly basis, earnings are expected to increase by 5%QoQ on the back of 46%QoQ drop in other charges in the absence of substantial exchange losses booked in preceding quarter to the tune of PKR 1.7bn and +2%QoQ rise in net revenues on account of +2%QoQ rise in oil prices and +6%QoQ increase in oil production,
- ✓ We recommend a 'BUY' stance on PPL with our Dec-20 target price of PKR 197.0/share offering 53% upside from last close. The company is currently trading at FY20 P/E of 5.7x.

Earnings to clock in at PKR 5.48/share for 2QFY20, down by 11%YoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 25th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 14.92bn (EPS PKR 5.48), down by 11%YoY, compared to PKR 16.85bn (EPS PKR 6.19) in the same period last year. We estimate decline in earnings on the back a) 78%YoY drop in other income in the absence of exchange gains of PKR 4.1bn recorded in same period last year, b) lower oil and gas production down by 4%/10%YoY and, c) higher effective tax rate. However exploration cost is likely to remain high due to dry well cost incurred at Nooh well (Hab Block) whereas prospecting expense is likely to remain low amid negligible data acquisition. We do not expect any cash dividend payout for the 2QFY20 on account of cash constraints due to elevated receivables.

Exhibit: PPL Financial Highlights

PKRmn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Net Sales	42,726	40,594	5%	84,485	78,810	7%
Operating Expense	10,324	10,369	0%	19,535	19,456	0%
Royalty & Other Levies	6,258	5,974	5%	12,398	11,611	7%
Gross Profit	26,143	24,251	8%	52,552	47,744	10%
Exploration Expense	3,344	4,811	-30%	6,208	7,998	-22%
Other Income	1,071	4,883	-78%	1,952	6,867	-72%
Other Expense	2,369	2,201	8%	6,725	4,301	56%
EBIT	20,719	21,573	-4%	40,177	41,233	-3%
Finance Cost	275	130	111%	546	264	107%
PBT	20,444	21,443	-5%	39,631	40,969	-3%
PAT	14,924	16,851	-11%	29,161	31,039	-6%
EPS (PKR)	5.48	6.19		10.72	11.41	
DPS (PKR)	-	-		-	-	

Source: IGI Research and Company Financials

No of Shares: 2,720.97mn

Absence of exchange losses to boost earnings on sequential basis

On a quarterly basis, earnings are expected to increase by 5%QoQ on the back of 46%QoQ drop in other charges in the absence of substantial exchange losses booked in preceding quarter to the tune of PKR 1.7bn and +2%QoQ rise in net revenues on account of +2%QoQ rise in oil prices and +6%QoQ increase in oil production. However, higher tax rate, lower gas production due to lower flows from Kandhkot and 2%QoQ appreciation of PKR against USD is likely to keep earnings growth limited.

Oil and Gas production down by 4%/10%YoY during 2QFY20

Total gas production for the Company fell down by 10%YoY on the back of nearly lower production from Kandhkot and Tal Block. This brings total gas production for 1HFY20 to 699mmcf down by 10%YoY. Oil production also fell by 4%YoY on account of lower production from Nashpa, Adhi and Tal block however addition of Dhok Sultan in Nov-19 limited decline in oil production. This brings total oil production to 14,702bopd down by 5%YoY.

Exhibit: PPL oil production (bopd)

Oil production remained low due to lower production from Nashpa and Adhi

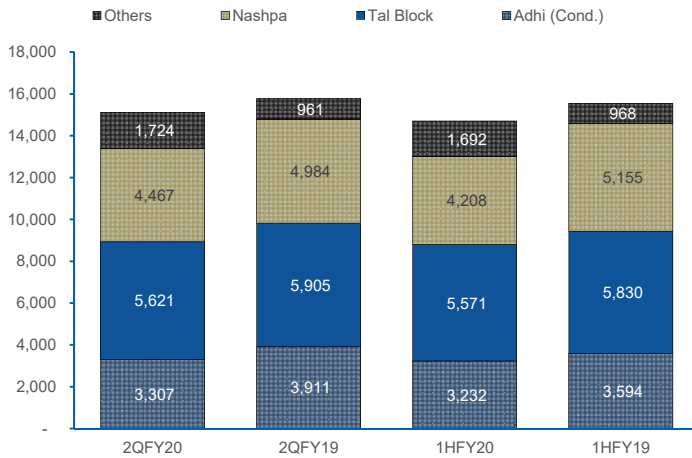
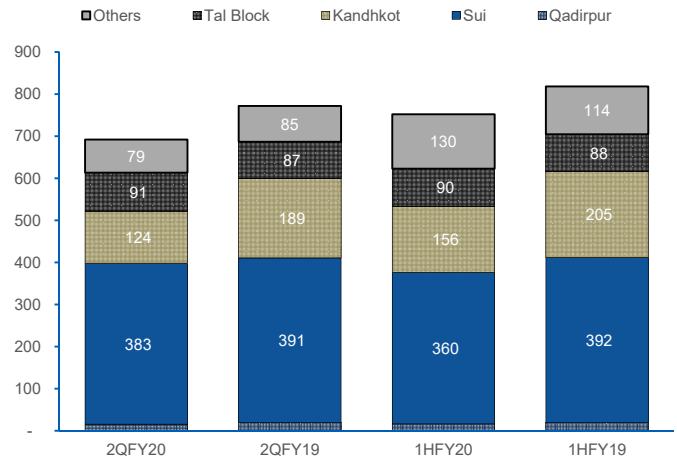


Exhibit: PPL gas production (mmcf)

Gas production remained low due to lower production from Kandhkot and Tal Block



Recommendation

We recommend a ‘BUY” stance on PPL with our Dec-20 target price of PKR 197.0/share offering 53% upside from last close. The company is currently trading at FY20 P/E of 5.7x.

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Time Horizon: Dec – 2020

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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