

Day Break

Wednesday, 25 October 2017

COMPANY UPDATE

PAKISTAN PETROLEUM LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	208.2
Last Closing: 24-Oct-17	177.9
Upside:	17.1
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Jun-18

Market Data

Bloomberg Tkr.	PPL PA
Shares (mn)	1,971.7
Free Float Shares (mn)	481.3
Free Float Shares (%)	24.4%
Market Cap (PKRbn USDmn)	350.7 3,328.2
Exchange	KSE100
Price Info.	90D 180D 365D
Abs. Return	(0.6) 1.6 11.0
Lo	159.4 143.7 143.7
Hi	180.1 186.5 193.3

Key Company Financials

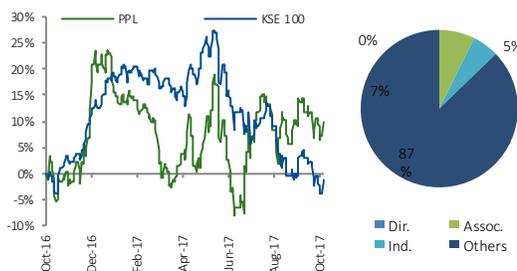
Period End: Jun

PKRbn	FY16A	FY17A	FY18E	FY19F
Total Revenue	80.2	87.3	123.5	129.8
Net Income	17.2	35.7	39.7	40.7
EPS (PKR)	8.7	18.1	20.1	20.6
DPS (PKR)	5.8	9.0	8.5	9.0
Total Assets	272.5	282.7	339.1	357.9
Total Equity	192.6	207.3	238.3	261.1

Key Financial Ratios

ROE (%)	8.9	17.2	16.7	15.6
P/E (x)	20.3	9.8	8.8	8.6
P/B (x)	1.8	1.7	1.5	1.3
DY (%)	3.2	5.1	4.8	5.1

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, PSX & IGI Research

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Oil & Gas Exploration Companies

PPL: Revised Sui price and One-off impact to lift 1QFY18 EPS by 2.1xYoY to PKR 6.16

- Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 27th Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 12.15bn (EPS PKR 6.16), up by +2.1xYoY;
- On quarterly basis, earnings are expected to drop by 40%QoQ on the back of one-off amount received retrospectively in respect of revision in Sui wellhead price amounting to PKR 32bn;
- Our revised Jun-18 target price for PPL is PKR 208/share (revised down by ~2% from previous PKR 213share) offering +17% upside from its last close, thus maintaining our 'BUY' stance on the scrip. The company is currently trading at FY18E P/E multiple of 8.8x and offers a dividend yield of 4.8%.

Earnings to clock in at PKR 6.16/share for 1QFY18, up by +2.1XYoY

Pakistan Petroleum Limited's (PPL) board meeting is scheduled on 27th Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 12.15bn (EPS PKR 6.16), up by +2.1xYoY, compared to PKR 5.75bn (EPS PKR 2.92) in the same period last year. Earnings growth is primarily attributable to a) +17%YoY rise in oil prices, b) +23%/+8%YoY increase in oil/gas production on the back of production commencement from Mardankhel and Makori Deep and increased flows from Nashpa, c) lower exploration expense in the absence of dry well cost and, d) one-off retrospective amount of PKR 3.62bn to be realized in respect of wellhead gas price revision for Tal block. However, other income is expected to come down by 9%YoY on account of maturing PIBs reinvested in TDR at lower rate.

Earnings to plummet by 27%QoQ owing to one-off retrospective amount for revised wellhead price for Sui field

On quarterly basis, earnings are expected to drop by 27%QoQ on the back of one-off amount received retrospectively in respect of revision in Sui wellhead price amounting to PKR 32bn. Moreover, decline of 26%QoQ in other income in the absence of PIB income to further drag down profitability for 1QFY18.

Exhibit:

PPL Financial Highlights

PKRmn	1QFY18E	1QFY17	YoY	4QFY17	QoQ
Net Sales	33,051	18,810	76%	53,013	-38%
Field Expenditure	10,894	8,765	24%	13,253	-18%
Royalty	4,946	2,226	122%	13,781	-64%
Gross Profit	17,211	7,818	120%	25,979	-34%
Other Income	1,021	1,124	-9%	1,372	-26%
Other Expense	761	641	19%	5,717	-87%
Finance Cost	160	117	37%	114	40%
PBT	17,311	8,184	112%	21,520	-20%
PAT	12,153	5,749	111%	16,608	-27%
EPS (PKR)	6.16	2.92	111%	8.42	-27%
DPS (PKR)	-	-	-	6.00	-

Source: IGI Research and Company Financials

No of Shares: 1,972mn

Exhibit:
PPL Oil Production for 1QFY18 - (bopd)

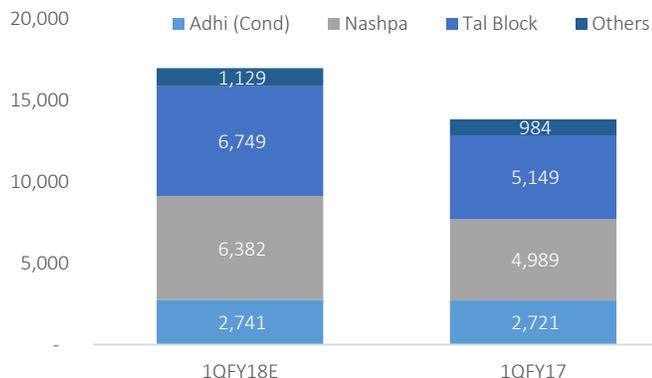
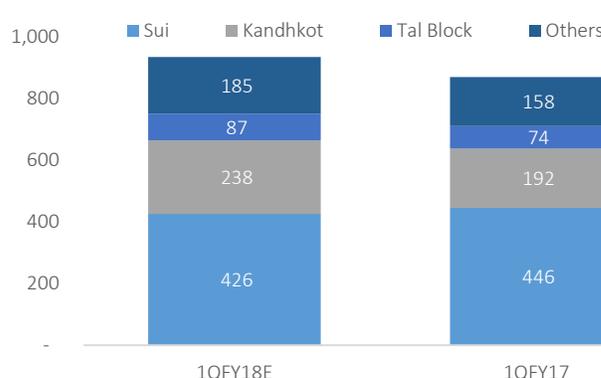


Exhibit:
PPL Gas Production for 1QFY18 - (mmcf)



Source: IGI Research, Company Financials, PPIS

Retrospective impact of revision in wellhead gas price for Tal block likely to be realized in 1QFY18 as stated by the management

We have incorporated the retrospective impact amount of PKR 3.62bn pertaining to conversion of Makori East, Mamikhel and Maramzai to Petroleum Policy 2007 and 2009 which is estimated to lift PPL’s earnings by PKR 1.1-1.3/share. We expect the company to realize this amount during 1QFY18 according to its accounting policy, as stated by the management in its notice through PSX.

Exhibit:
Earnings Impact on PPL

Company	Stake in Tal Block	Block	Amt. Received (PKRbn)	Additional EPS Impact (PKR/share)	EPS FY18E		P/E (x)	
					Pre	Post	Pre	Post
PPL	27.8%	Ikhlas	3.62	1.3	18.9	20.3	9.2	8.6

Source: IGI Research, PSX

PIBs proceeds reinvested in TDR at a lower rate

As the PIBs matured in Jul-17 other income is expected to come down by 9%YoY to PKR 1.0bn during 1QFY18, while some support to other income should emanate from reinvestment of proceeds in TDRs and T-Bills at a lower rate ranging between 3.85%-7% compared to mark up rate of KIBOR+2.5% (10.05% in FY16) on previously held PIBs.

Realized Oil & Gas prices



Source: IGI Research, Company Financials

Oil/gas production up by +23%/+8%YoY in 1QFY18

Oil production increased by +23%YoY to 17,001bopd on account of higher production from Nashpa (up +28%YoY) and production commencement from Mardankhel and Makori Deep. Gas production posted a growth of +8%YoY to 936mmcf primarily led by higher production from Kandhkot (up by +24%YoY) and start of commercial production from Mardankhel and Makori Deep. However, offtake from Sui declined by 4%YoY.

Recommendation

We have slightly revised our earnings estimates and target price for PPL after incorporating full year financial statements along with one off impact of revision in wellhead price for Tal block. Our revised Jun-18 target price for PPL is PKR 208/share (revised down by ~2% from previous PKR 213share) offering +17% upside from its last close, thus maintaining our ‘BUY’ stance on the scrip. The company is currently trading at FY18E P/E multiple of 8.8x and offers a dividend yield of 4.8%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun – 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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