

Flash Note

Monday, 13 August 2018

Oil & Gas Exploration Companies

Pakistan Petroleum Limited (PPL)

Discovery of Hydrocarbons in Exploratory Well Yasar-01 (Kotri Block)

- According to notice issued on Pakistan Stock Exchange Limited (PSX) by Pakistan Petroleum Limited (PPL), the Company (operator of Kotri Exploration License) has discovered hydrocarbons from exploratory well Yasar X-1 (Kotri Block) to the tune of 475 bopd of oil condensate and 3.2 mmcf/d of gas.
- PPL as operator holds 100% stake in the block.
- Production from Kotri block will be priced under Petroleum Policy 2012 (PP12) as the block has been granted conversion under the Supplemental Agreement (SA).
- Based on our estimate, we expect annualized earnings impact of PKR 0.41/share based on oil price assumption of USD 70/bbl and exchange rate of PKR 125 against USD.

Recommendation

We recommend a 'BUY call on PPL with our Dec-18 target price of PKR 260.1/share, offering +22% upside from last close. The Company is currently trading at FY19F P/E of 6.3x and offers a dividend yield of 7.1%.

Exhibit:

Annualized EPS impact of discovery of Hydrocarbons in Yasar X-1

Exploratory Well	Block	Oil (bopd)	Gas (mmcf/d)	Operator	Oil price(USD/bbl)	PKR/USD	Stake	EPS Impact
Yasar X-1	Kotri Block	475	3.20	PPL	70	125	100%	0.41

Source: IGI Research, PSX

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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 – 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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