

## PAKISTAN

# Pakistan Petroleum Ltd

24 January 2012

**PPL PA** **N/A**

Stock price as of 23 Jan	Rs	181.2
June 12 target	Rs	N/A
Upside/downside	%	N/A
Valuation	Rs	N/A
- Reserve based DCF		

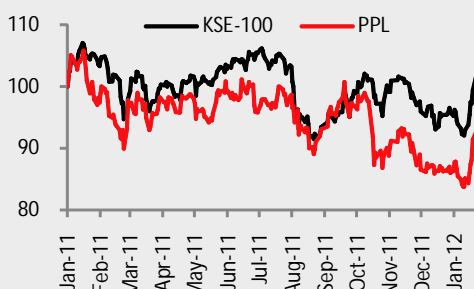
Oil and gas exploration

Market cap	Rs bn	238
30-day avg turnover	US\$m	1.5
Market cap	US\$m	2,738
Number shares on issue	m	1,314

### Investment fundamentals

Year end 30 Jun		2010A	2011E	2012E	2013E
Total revenue	m	59,962	78,252	98,724	99,753
EBIT	m	34,683	48,570	63,878	64,844
EBIT Growth	%	(17.4)	40.0	31.5	1.5
Recurring profit	m	23,321	31,446	41,030	41,614
Reported profit	m	23,321	31,446	41,030	41,614
EPS rep	Rs	17.74	26.31	31.21	31.66
EPS rep growth	%	(15.8)	48.3	30.5	1.4
PE rep	x	10.2	6.9	5.8	5.7
Total DPS	Rs	7.50	10.90	14.00	14.00
Total div yield	%	4.1	6.0	7.7	7.7
ROA	%	21.7	25.3	26.5	23.1
ROE	%	29.2	33.3	34.3	29.2
EV/EBITDA	x	5.6	3.7	2.9	2.8
Net debt/equity	%	-36.39	-23.57	-39.90	-53.99
Price/book	x	3.0	2.5	2.0	1.7

### PPL PK rel KSE100 performance



Source: Bloomberg, Foundation Research, January 2012  
(all figures in PKR unless noted)

### Analyst

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## Stability now, excitement in 2<sup>nd</sup> Half

### Event

- PPL is scheduled to announce its 2QFY12 on 25<sup>th</sup> January, where we expect the company to post record net profit of PKR10,034mn (EPS PKR 7.63, up 13.7% YoY), operating profit of PKR14,808mn (up 30.4%) and top line of PKR23,673mn (up 23.3%). We also expect the company to announce interim cash dividend PKR6.0/share.

### Impact

- **Strong oil prices to boost top line:** We estimate PPL's top line to grow by 23.3% to PKR23,673mn, driven primarily by strong oil prices which will boost oil revenues (including condensate and NGL sales) by 51.8% to PKR6,612mn and gas revenues by 16.1% to PKR16,684mn. Company's gas production growth will be nominal at 1.2%, though 14.7% increase in wellhead gas prices to PKR180.5/mcf will allow PPL to report double digit growth in gas revenues. Oil production growth, on the other hand, will be decent at 12.0%, driven by gains in production from Manzalai, Nashpa, and Adhi fields. This coupled with 31.6% increase in realized oil prices to \$101.5/bbl will result in healthy growth in oil sales.
- **Field expenditures to remain high owing to possible write-offs, 3D seismic:** We estimate PPL's field expenditures to rise by 8.6% to PKR6,050mn as we expect the company to book cost of two dry wells, Misiri Bhambro-1 and Lundo-1, in this quarter. The official status of the two wells, as per OMV, is temporarily suspended so it is possible that PPL may not book these as dry wells yet, which may boost company's earnings by PKR0.2/share. The company's 2D seismic acquisition remained relatively muted at 93.0L.Kms as compared to 243.0L.Kms in the previous quarter. However, higher 3.D seismic acquisition of 221.7Sq.Kms will largely offset the reduction in 2.D seismic costs.
- **2H results to impress, 4Q will be stellar:** PPL's 2QFY12 and 1HFY12 results will be decent as the company will register double digit growth in bottom line. The results, however, may not excite investors to a great extent as they are fearful of a significantly discounted price in the SPO, and it will require something substantial to shift investor's focus back on PPL's strong fundamentals. We believe that strong 2<sup>nd</sup> Half results, particularly stellar 4QFY12 results driven by production additions from Nashpa and Makori East, will be substantial enough to shift investor focus. We expect PPL to register 57% YoY growth in 4QFY12 earnings, to PKR8.45/share.

### Earnings Revision

- No change

### Price catalyst

- Jun-12 price target: N/A.
- Catalyst: Strong second half results, exploratory news flow from Kohat, start of tight gas production from Kirthar.

## Action and recommendation

- **N/A:** The stock trades at FY11E PE, PB, and EV/EBITDA multiples of 5.8x, 2.0x, and 2.9x, respectively.

### Fig 1 2QFY12 results

(Rs m)	2QFY11	2QFY12	YoY
Net Sales	19,197	23,673	23.3%
Field & prospecting expenditure	5,573	6,050	8.6%
Royalty	2,271	2,816	24.0%
Operating Profit	11,353	14,808	30.4%
Other Income	972	1,400	44.0%
WPPF & WWF Charges	842	1,114	32.3%
EBIT	11,483	15,093	31.4%
Earning before tax (EBT)	11,426	15,038	31.6%
Tax	2,597	5,004	92.7%
EAT	8,829	10,034	13.7%
EPS	6.72	7.63	13.7%
DPS	-	-	-

Source: Company data, Foundation Research, January 2012

## About The Company

Pakistan Petroleum Ltd is the oldest exploration and production company in the country. It was incorporated on 5th June, 1950 subsequent to the promulgation of the Pakistan Petroleum Production Rules, 1949 with the main objective of conducting exploration, development and production of Pakistan's oil and natural gas resources. PPL inherited all the assets and liabilities of the Burmah Oil Company (Pakistan Concessions) Limited and commenced business on 1st July 1952.

The Government of Pakistan (GoP) in September 1997 purchased the entire equity interest of Burmah Castrol PLC, formerly Burmah Oil Company, representing 63.91 percent of the Share Capital thereby increasing its holding in the Company to 93.35 percent. Subsequent to June 2004, the GoP has disinvested a portion of its equity in the company equivalent to 15% of the paid up share capital through an Initial Public Offering (IPO). The GoP has made a policy decision to privatize PPL and IPO is a significant step towards this direction. Currently, GoP hold 78.35% of the shares (out of which 9.4% are allocated for BESOS trust), International Finance Corporation (6.09%) and institutional and individual investors (15.56%).

The company also operates a Baryte mine in Balochistan province. It produces oil well drilling grade Baryte powder from the mine, which has proven reserves of 1.25 million tones