Earning Review

PPL: 1QFY22 EPS clocked in at Rs6.2, up 18% YoY

Event

- Pakistan Petroleum Limited (PPL) profitability clocked in at Rs17.0bn (EPS Rs6.2), up 18% YoY, during 1QFY22 against profitability of Rs14.4bn (EPS Rs5.3) in the same period last year.

Impact

- We attribute increase in profitability to higher oil prices, enhanced LPG production, increased contribution of other income and reduced quantum of other operating expenses. .
- Growth in profitability is restricted by lower production of Oil and gas along with higher exploration and development expense during the quarter.
- Arab Light prices recovered during the quarter given pick up of global economic activity. AL averaged US$74.1/bbl during 1QFY22, up 70%/ 9% YoY/QoQ.
- Oil and Gas production declined by 12.0% YoY and 12.6% YoY during 1QFY22. On the contrary, LPG production increase by 11% YoY during 1QFY22.
- Oil production was down due to lower production from Naspha (down 12% YoY), Adhi (9% YoY) and TAL block (down 14% YoY).
- Gas production was down given reduced flows from Qadirpur (down 20% YoY), kandhkot (45% YoY), Sui (8% YoY) and TAL Block (down 8.1% YoY). However, improved flows from Gambat South field (30% YoY) has helped to restrict decline in company's gas flows.
- Exploration expense is up by 108% YoY given higher exploratory and drilling activities due to strengthening of oil prices, in our view.
- Other charges of the company are down by 3% YoY given absence of exchange loss.
- Furthermore, PPL other income increased to Rs4.5bn in 1QFY22 primarily because of exchange gain on foreign currency denominated assets as rupee depreciated by 7.6ppt QoQ between reporting dates.

Outlook

- Hydrocarbon growth along with the pricing of new discoveries at lucrative rates would provide significant uptick in profitability. Cash flow improvement due to resolution of circular debt, a key reform agenda of IMF program, would help to expedite exploration and development activities. Subsequently, this would help to exploit potential of Sui, Gambat South and kandhkot fields.
- Aforementioned factors along with a dollar denominated revenue stream compels us to have an "Outperform" rating for the scrip.

Fig 1: 1QFY22 Financial Highlights

Rs mn	1QFY22	1QFY21	YoY	QoQ
Sales	43,154	39,226	10%	17%
Field expenditures	11,036	10,112	9%	26%
Royalties	6,309	5,945	6%	17%
EBITDAX	**31,298**	**27,999**	**12%**	**17%**
Exploration expense	4,719	2,273	108%	-29%
Other income	4,536	748	507%	294%
Other operating expenses	2,068	2,132	-3%	-318%
Finance cost	284	292	-3%	11%
PBT	**23,273**	**19,220**	**21%**	**31%**
Taxation	6,282	4,869	29%	114%
PAT	**16,991**	**14,351**	**18%**	**14%**
EPS	6.2	5.3		

Source: Company Reports, Foundation Research, October 2021

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Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.