Earning Review

PPL: 2QFY22 EPS clocked in at Rs5.4, DPS Rs1.5

Event

- Pakistan Petroleum Limited (PPL) profitability clocked in at Rs14.7bn (EPS Rs5.4), up 24% YoY, during 2QFY22 against profitability of Rs11.9bn (EPS Rs4.4) in the same period last year. This cumulates into 1HFY22 profitability of Rs31.7bn (EPS Rs11.7), up 21% YoY, compared to Rs26.2bn (EPS Rs9.6) in 1HFY21.
- Result is accompanied with cash payout of Rs1.5/sh.

Impact

- We attribute increase in profitability to higher oil prices and increased contribution of other income.
- Growth in profitability is restricted by (1) lower production of oil, gas and LPG, (2) higher exploration and development expense during the quarter and (3) share of loss of associate.
- Arab Light prices recovered during the quarter given pick up of global economic activity. AL averaged US$79.7/bbl during 2QFY22, up 84%/ 8% YoY/QoQ.
- Oil, Gas and LPG production declined by 9.5% YoY, 7.8% YoY and 1.8% YoY during 2QFY22.
- Oil production was down due to lower production from Naspha (down 13% YoY), Adhi (down 21% YoY) and TAL block (down 12% YoY).
- Gas production was down given reduced flows from Qadirpur (down 11% YoY), kandhkot (down 34% YoY), Sui (down 12% YoY) and TAL Block (down 8% YoY). However, improved flows from Gambat South field (up 42% YoY) has helped to restrict decline in company's gas flows.
- Exploration expense is up by 321% YoY given higher exploratory and drilling activities due to strengthening of oil prices, in our view.
- Furthermore, PPL other income increased to Rs2.7bn in 2QFY22 primarily because of exchange gain on foreign currency denominated assets as rupee depreciated by 4.1ppt QoQ between reporting dates.
- Company booked loss of Rs2.4bn under share of profit from associate with respect to 3D seismic cost incurred by the associate PIOL.
- During the previous quarter, the Company, along with other consortium members i.e. Mari Petroleum Company Limited (MPCL), Oil and Gas Company Limited (OGDC) and Government Holdings (Private) Limited (GHPL) has been awarded Offshore Block 5 in Abu Dhabi's second competitive exploration block bid round. The consortium companies have established an independent company Pakistan International Oil Limited (PIOL) at Abu Dhabi Global Market with each consortium company having a 25% equity stake in PIOL. The exploration concession agreement between PIOL and Abu Dhabi National Oil Company (ADNOC) was signed on 31 August, 2021.

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: 2QFY22 Financial Highlights

Rs mn	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Sales	46,374	36,313	28%	7%	89,528	75,539	19%
Field expenditures	10,366	13,627	-24%	-6%	21,402	23,739	-10%
Royalties	6,776	5,412	25%	7%	13,085	11,356	15%
EBITDAX	34,723	22,738	53%	11%	66,021	50,737	30%
Exploration expense	3,677	873	321%	-22%	8,396	3,147	167%
Other income	2,736	1,111	146%	-40%	7,272	1,859	291%
Other operating expenses	5,912	1,754	237%	186%	7,981	3,886	105%
Finance cost	301	289	4%	6%	585	581	1%
PBT	22,078	15,469	43%	-5%	45,351	34,689	31%
Taxation	7,360	3,583	105%	17%	13,641	8,452	61%
PAT	**14,719**	**11,886**	**24%**	**-13%**	**31,710**	**26,237**	**21%**
EPS	**5.4**	**4.4**			**11.7**	**9.6**	

Source: Company Reports, Foundation Research, February 2022

Analyst

Muhammad Awais Ashraf
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

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Recommendations definitions

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