Earning Review

PPL: 3QFY22 EPS clocked in at Rs7.6, up 74% YoY

Event

- Pakistan Petroleum Limited (PPL) profitability clocked in at Rs20.6bn (EPS Rs7.6), up 74% YoY, during 3QFY22 against profitability of Rs11.9bn (EPS Rs4.4) in the same period last year. This cumulates into 9MFY22 profitability of Rs52.3bn (EPS Rs19.2), up 37% YoY, compared to Rs38.1bn (EPS Rs14.0) in 9MFY21.

Impact

- We attribute increase in profitability to higher oil prices and increased contribution of other income.
- Growth in profitability was restricted due to (1) lower production of oil, gas and LPG, and (2) higher exploration and development expense during the quarter.
- Arab Light prices increased during the quarter given fear of supply disruption due to Russia Ukraine war. AL averaged US$100.2/bbl during 3QFY22, up 65%/ 25% YoY/QoQ.
- Oil, Gas and LPG production declined by 19.9% YoY, 3.9% YoY and 4.0% YoY during 3QFY22.
- Oil production was down due to lower production from Naspha (down 20% YoY), Adhi (down 26% YoY) and TAL block (down 11% YoY).
- Gas production was down given reduced flows from Qadirpur (down 14% YoY), kandhkot (down 17% YoY), Sui (down 7% YoY) and TAL Block (down 9% YoY). However, improved flows from Gambat South field (up 19% YoY) has helped to restrict decline in company's gas flows.
- LPG production was down given production from Adhi (down 14% YoY). However, improved flows from TAL Block has helped to restrict decline.
- Exploration expense is up by 204% YoY given higher exploratory and drilling activities due to strengthening of oil prices, in our view.
- Furthermore, PPL other income increased to Rs3.1bn in 3QFY22 primarily because of exchange gain on foreign currency denominated assets as rupee depreciated by 3.3ppt QoQ between reporting dates.
- Company booked loss of Rs72.6mn under share of profit from associate with respect to expenditure incurred by the associate PIOL.

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: 3QFY22 Financial Highlights

Rs mn	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Sales	50,905	36,696	39%	10%	140,433	112,235	25%
Field expenditures	10,652	11,394	-7%	3%	32,054	35,134	-9%
Royalties	7,388	5,314	39%	9%	20,473	16,670	23%
EBITDAX	36,152	25,374	42%	11%	99,840	76,111	31%
Exploration expense	1,430	470	204%	-61%	9,826	3,617	172%
Other income	3,132	1,046	199%	14%	10,404	2,905	258%
Other operating expenses	3,309	3,655	-9%	-44%	11,290	7,541	50%
Finance cost	312	270	16%	4%	897	851	5%
PBT	30,946	16,639	86%	40%	76,297	51,328	49%
Taxation	10,326	4,759	117%	40%	23,967	13,210	81%
PAT	20,620	11,881	74%	40%	52,330	38,118	37%
EPS	7.6	4.4			19.2	14.0	

Source: Company Reports, Foundation Research, April 2022

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Recommendations definitions

If

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