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Foundation Alert

PPL: Analyst Briefing Takeaways

Event

- Pakistan Petroleum Limited (PPL PA) management conducted its analyst briefing today to discuss its operational and financial performance for FY22 along with outlook of the company. Following are the key takeaways of the briefing.

Impact

- Management covered the following in their presentation including (1) brief corporate history, (2) operational achievements, (3) financial performance and (4) outlook of the company.
- Company's current exploration and production portfolio is spread across Pakistan with international presence in Yemen and Abu Dhabi. PPL also holds mineral rights in Balochistan province through Bolan Mining Enterprise (BME), a joint venture with government of Balochistan.
- PPL current portfolio contains 22 producing fields and 50 exploration blocks. Out of these, nine fields are company operated in producing portfolio and twenty nine exploration blocks are company operated.
- Company has been provisionally awarded 8 blocks; four during the year and four subsequent to the end of the year. Out of these three are operated namely Kalat West, Sui North and Shaigalu.
- During FY22 company has spud four exploratory wells and eight development wells.
- Eight development wells were spud in during the year out of which two were company operated to maintain the production profile of existing fields.
- Company is planning to drill 7 exploratory and 9 development wells during FY23.
- Company overall production declined to 852 mmcfd in FY22.
- During the year, company has "farm in" in Baska and Eastern Offshore Indus Block-C.
- Baska operatorship along with ZhenHua Oil's 33.5% working interest was transferred to PPL with effect from 13 May 2022. Now, PPL has the operatorship along with 82.5% working interest with the remaining 17.5% being owned by ZhenHua as a joint venture partner.
- Eastern Offshore Indus Block-C operatorship along with 60% participating interest was acquired by PPL from Eni Pakistan. Now, PPL has operatorship with 100% participating interest in the block.
- As per management, FY22 flows of Sui and Kandhkot forms 46% (48% in FY21) and 14% (14% in FY21) of company's total gas production of 852mmcfd. Gambat South accounts for just 13% in FY22 (10% in FY21) of company's gas flows.
- The average production from Sui and Kandhkot fields remained at 334 mmscfd and 103 mmscfd, showing a fall of 7% and 12%, respectively. This is attributed to a natural decline in Sui and low off-takes by Genco-II from Kandhkot.
- During FY22, company liquid production contributed by fields of Nashpa is 32% (33% in FY21) and TAL is 35% (36% in FY21). Adhi accounts for 22% (24% in FY21) of company's oil production.
- Liquidity position of the company deteriorated during the year given significant increase in pace of circular debt build up. The trade debts of the company have reached Rs366bn on Jun 30, 2022 against Rs282bn on Jun 30, 2021.
- Company gas collections decreased to 47% on sales of Rs142bn in FY22.

- As per management, company has outstanding receivable of Rs186bn, Rs154bn and Rs7bn in FY22 against Rs161bn, Rs110bn and Rs6bn in FY21 from SNGPL, SSGC and GENCO-II, respectively.
- For resolution of circular debt government is working on formulation of mitigation plans at the highest levels in the Ministry of Energy and Finance Division. These plans are under implementation phase and the company is hopeful that, if implemented, will improve cash flows.
- In order to defuse circular debt impact, management is (1) focusing on oil revenue, for this, focus is in on Dhok Sultan development along with investment in Abu Dhabi Block and (2) diversifying in circular debt free strategic investments such as Reko Diq and Barite, Lead and Zinc (BLZ) project through BME.
- On Iraq block-8, subsequent to year-end Midland Oil Company, Iraq (MdOC) has intimated termination/expiry of the Exploration, Development and Production Service Contract (EDPSC) and advised to settle all outstanding liabilities and receivables and commence close-out proceedings. The Company will take appropriate actions in due course of time.

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, Margand and kandhkot fields.
- Aforementioned factors along with a dollar denominated revenue stream compels us to have an “Outperform” rating for the scrip.

Fig 1: 4QFY22 Financial Highlights

Rs mn	4QFY22	4QFY21	YoY	QoQ	FY22	FY21	YoY
Sales	61,766	36,193	71%	33%	202,199	148,429	36%
Field expenditures	12,637	8,735	45%	22%	44,691	43,869	2%
Royalties	10,028	5,387	86%	48%	30,500	22,057	38%
EBITDAX	42,387	26,316	61%	30%	142,227	102,428	39%
Exploration expense	13,909	6,660	109%	278%	23,735	10,277	131%
Other income	3,740	1,151	225%	37%	14,144	4,056	249%
Other operating expenses	6,789	948	616%	15%	18,079	8,489	113%
Finance cost	310	257	21%	3%	1,207	1,107	9%
PBT	21,833	17,253	27%	-1%	98,131	68,582	43%
Taxation	20,617	2,940	601%	180%	44,585	16,150	176%
PAT	1,216	14,313	-92%	-92%	53,546	52,431	2%
EPS	0.4	5.3			19.7	19.3	

Source: Company Reports, Foundation Research, November 2022

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If

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