

Earning Review

PPL: 2QFY23 EPS clocked in at Rs8.20, DPS Rs1.0

Event

- Pakistan Petroleum Limited (PPL) profitability clocked in at Rs22.3bn (EPS Rs8.20), up 52% YoY, during 2QFY23 against profitability of Rs14.7bn (EPS Rs5.41) in the same period last year. This cumulates into 1HFY23 profitability of Rs48.9bn (EPS Rs17.98), up 54% YoY.
- The result is accompanied with cash payout of Rs1.0/sh against our expectation of no payout.
- However, result is in line with our expectations.

Impact

- We attribute increase in profitability to (1) higher Arab light prices, (2) elevated dollar indexation and (3) higher production across the board.
- However, higher exploration expense along with lower other income has restricted the profitability growth.
- Arab Light prices eased on sequential basis due to lower demand but remain elevated on YoY given fear of supply disruption due to Russia Ukraine war. AL averaged US\$91/bbl during 2QFY23, up 13.7% YoY.
- Dollar averaged Rs223 in 2QFY23, up 27.9% YoY while dollar indexation was up 29.4% YoY for gas pricing.
- Gas production of the company increased by 19% YoY due to 2.3x YoY increase in flows from Kandhkot. Moreover, gas flows from Gambat South and Qadirpur were down by 5.0% YoY and 5.0% YoY. Moreover, gas production of TAL Block is down by ~11% YoY.
- Company booked exploration expense of Rs7.5bn in 2QFY23, up 105% YoY.
- Company's other income decreased by 33% YoY in 2QFY23 due to slight exchange loss on dollar denominated assets against gain in 2QFY22.
- Oil and LPG production declined by 3% YoY and 18% YoY during 2QFY23.
- Oil production was up due to commencement of production from Dhok Sultan despite lower production from Naspha (down 14% YoY) and Adhi (down 5% YoY).
- LPG production was up given higher production from Adhi field (up 2.8% YoY) and commencement of production from Dhok Sultan despite lower production from TAL block (down 6.3% YoY).
- Company booked loss of Rs100.7mn 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, Margand and kandhkot fields.
- Aforementioned factors along with a dollar denominated revenue stream compels us to have an "Outperform" rating for the scrip with Dec'23 TP of Rs138.6.

Fig 1: 2QFY23 Financial Highlights

Rs mn	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales	65,046	46,374	40%	-10%	137,657	89,528	54%
Field expenditures	12,613	10,366	22%	0%	25,280	21,402	18%
Royalties	10,334	6,776	53%	-18%	22,867	13,085	75%
EBITDAX	47,731	32,518	47%	-9%	100,436	63,689	58%
Exploration expense	7,527	3,677	105%	409%	9,007	8,396	7%
Other income	1,820	2,736	-33%	-62%	6,663	7,272	-8%
Other operating expenses	3,612	5,912	-39%	-21%	8,179	7,981	2%
Finance cost	367	301	22%	9%	705	585	20%
PBT	32,412	22,078	47%	-29%	78,282	45,351	73%
Taxation	10,089	7,360	37%	-48%	29,346	13,641	115%
PAT	22,323	14,719	52%	-16%	48,936	31,710	54%
EPS	8.20	5.41			17.98	11.65	

Source: Company Reports, Foundation Research, February 2023

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