PAKISTAN **April 27, 2023**

Earning Review

PPL: 3QFY23 EPS clocked in at Rs12.09

Event

- Pakistan Petroleum Limited (PPL) profitability clocked in at Rs32.9bn (EPS Rs12.09), up 60%/24% YoY/QoQ, during 3QFY23 against profitability of Rs20.6bn (EPS Rs7.58) in the same period last year. This cumulates into 9MFY23 profitability of Rs81.8bn (EPS Rs30.08), up 56% YoY.
- The result is above our expectations given lower operating expenses and lower exploration expense.

Impact

- We attribute increase in profitability to (1) higher Arab light prices for gas flows, (2) elevated dollar indexation, (3) higher oil and gas production and (4) enhanced interest income due to foreign exchange gains.
- However, lower Arab Light prices and higher exploration expense along with higher field expenditures has restricted the profitability growth.
- The price of Arab light is down by 18% YoY to average at ~US$82/bbl in 3QFY23 against ~US$100/bbl in 3QFY22. Whereas, oil price used for gas price indexation is up by 28% YoY in 3QFY23.
- Dollar averaged Rs260 in 3QFY23, up 46.3% YoY.
- Gas production of the company increased by 11% YoY due to 61% YoY increase in flows from Kandhkot. However, gas flows from Gambat South and Qadirpur were down by 7.6% YoY and 3.1% YoY.
- Company booked exploration expense of Rs3.9bn in 3QFY23, up 176% YoY.
- Company's other income increased by 163% YoY in 3QFY23 due to exchange gains on dollar denominated assets as rupee appreciated 24.9% between the reporting rates and higher interest rates.
- Oil production inclined by 1% YoY during 3QFY23.
- Oil production was up due to commencement of production from Dhok Sultan despite lower production from Naspha (down 14.1% YoY), TAL Block (down 7.3% YoY) and Adhi (down 2% YoY).
- LPG production was down 4.7% YoY given lower production from Adhi field (down 5.1% YoY) and TAL block (down 3.6% YoY) despite commencement of production from Dhok Sultan.
- Company booked loss of Rs88.8mn 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: 3QFY23 Financial Highlights

Rs mn	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
Sales	76,518	50,905	50%	5%	214,175	140,433	53%
Field expenditures	13,580	10,652	27%	7%	38,860	32,054	21%
Royalties	11,882	7,388	61%	-5%	34,749	20,473	70%
EBITDAX	**57,716**	**36,152**	**60%**	**10%**	**158,152**	**99,840**	**58%**
Exploration expense	3,942	1,430	176%	166%	12,949	9,826	32%
Other income	8,235	3,132	163%	70%	14,898	10,404	43%
Other operating expenses	4,515	3,309	36%	-1%	12,694	11,290	12%
Finance cost	348	312	11%	3%	1,053	897	17%
PBT	**50,486**	**30,946**	**63%**	**10%**	**128,769**	**76,297**	**69%**
Taxation	17,588	10,326	70%	-9%	46,934	23,967	96%
PAT	**32,898**	**20,620**	**60%**	**24%**	**81,835**	**52,330**	**56%**
EPS	12.09	7.58			30.08	19.23	

Source: Company Reports, Foundation Research, April 2023

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Recommendations definitions

If

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