

# Pakistan Petroleum Limited

## Recurring FY16 earnings estimated at PKR10.1/sh

Tuesday January 10, 2017

### PPL - UNDERWEIGHT

Target Price: PKR 192

Current Price: PKR 192

#### PPL Performance

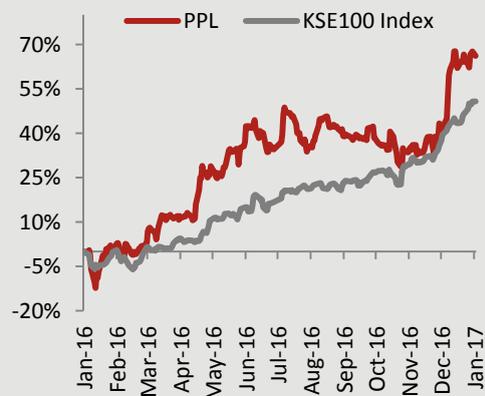
	1M	3M	12M
Absolute %	18%	20%	66%
Relative to KSE %	9%	1%	15%

Source: PSX, BMA Research

Bloomberg	PPL.PA
Reuters	PPL.KA
MCAP (USD mn)	3,606
12M ADT (USD mn)	7.6
Shares Outstanding (mn)	1,972

Source: PSX, BMA Research

#### PPL vs. KSE100 Relative Chart



Source: PSX, BMA Research

- The board meeting of Pakistan Petroleum limited (PPL) is scheduled to be held on Jan 17' 17 to consider financial results for FY16.
- We expect recurring earnings to clock in at PKR19.9bn (EPS: PKR10.1) in FY16, down 42%YoY.
- Recurring earnings in 4QFY16 are expected to clock in at PKR4.3bn (EPS: PKR2.2) compared to PKR3.8bn (EPS: PKR1.9) in 3QFY16, representing a growth of 13%QoQ.
- A potential PKR4.0bn impairment loss recognized in 4QFY16 will bring our estimates down to PKR17.2bn (EPS: PKR8.7) and PKR1.7bn (EPS: PKR0.8) for FY16 and 4QFY16, respectively
- At our target price of PKR192/sh we have an underweight stance on the scrip offering a total return of 3%.

**Recurring earnings decline 42%YoY in FY16:** The board meeting of Pakistan Petroleum limited (PPL) is scheduled to be held on Jan 17' 17 to consider financial results for FY16. We expect recurring earnings of the company to clock in at PKR19.9bn (EPS: PKR10.1) in FY16 compared to PKR34bn (EPS: PKR17.4) in the same period last year, down 42%YoY. The decline in earnings comes primarily on the back of i) declining revenue following lower oil prices coupled with depletion in production and ii) 29%YoY decline in other income.

**Recurring earnings to report 13%QoQ sequential growth:** Recurring earnings in 4QFY16 are expected to clock in at PKR4.3bn (EPS: PKR2.2) compared to PKR3.8bn (EPS: PKR1.9) reported in the preceding quarter, representing a growth of 13%QoQ. The growth can be attributed to i) reversal in crude oil prices, rising 43%QoQ and ii) 4%QoQ growth in other income. However, an expected 7%QoQ increase in field expenditure is likely to contain the overall growth in profitability.

**Impairment a material risk to estimates:** PPL had delayed its FY16 results following valuation downgrade of its wholly owned subsidiary MND exploration and Production Limited (MND), requiring an impairment of upto PKR4.0bn. Given the management was reviewing the valuation conducted by independent consultants, the extent of impairment remains unclear. However, a potential PKR4.0bn impairment loss recognized in 4QFY16 will bring our estimates down to PKR17.2bn (EPS: PKR8.7) and PKR1.7bn (EPS: PKR0.8) for FY16 and 4QFY16, respectively.

**Investment perspective:** Near term sentiment in the stock will likely be shaped by the extent of impairment recognized. However, an aggressive drilling strategy adopted by the company may result in substantial finds to replace the depleting gas production and assist in profitability growth. At our target price of PKR192/sh we have an underweight stance on the scrip offering a total return of 3%.

#### Financial Summary

(PKR mn)	FY16	FY15	YoY	4QFY16	3QFY16	QoQ
Net Sales	78,808	104,377	-24%	19,576	18,114	8%
Field expenditure	42,913	42,059	2%	11,831	11,107	7%
Other Income	5,356	7,569	-29%	1,193	1,152	4%
PAT	19,858	34,253	-42%	4,293	3,807	13%
EPS	10.1	17.4	-42%	2.2	1.9	13%
Adj EPS*	8.7	17.4	-50%	0.8	1.9	-59%

\* Adjusted for PKR4.0bn impairment

Source: BMA Research

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Rating definitions	
Overweight	Total stock return > expected market return + 2%
Market-weight	Expected market return $\pm$ 2%
Underweight	Total stock return < expected market return - 2%

\*Total stock return = capital gain + dividend yield

Old rating system (discarded effective Feb 29'16)

Buy	>20% upside potential
Accumulate	>=5% to <=20% upside potential
Hold	<5% to >5% potential
Reduce	<=-5% to >=-20% downside potential
Sell	<-20% downside potential

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)