

# Pakistan Petroleum (PPL)

2QFY18 EPS Rs4.7 +65% YoY (-30% QoQ); 1HFY18 EPS Rs6.7 +143% YoY

Cash dividend of Rs4/share

In-line with street consensus

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## Higher operating expenses dent earnings

PPL: Financial Highlights							
Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Net Sales	28,863	21,327	35%	-11%	61,181	40,256	52%
Operating Expenses	8,210	7,371	11%	5%	16,036	14,047	14%
Royalties	4,082	2,528	61%	-17%	8,983	4,783	88%
Gross Profit	16,571	11,427	45%	-15%	36,163	21,426	69%
Exploration Expenses	4,462	4,438	1%	NM	4,470	5,914	-24%
Admin Expenses	471	259	82%	-15%	1,028	1,091	-6%
Finance Cost	143	117	22%	31%	252	236	7%
Other Charges	754	15	NM	-24%	1,741	868	101%
Other Income	3,326	1,127	195%	177%	4,524	2,265	100%
Profit Before Tax	14,066	7,726	82%	-26%	33,196	15,582	113%
Taxation	4,847	2,122	128%	-19%	10,836	4,571	137%
Profit After Tax	9,219	5,604	65%	-30%	22,360	11,011	103%
<b>EPS (Rs)</b>	<b>4.7</b>	<b>2.8</b>			<b>11.3</b>	<b>5.6</b>	

Source: PSX, Topline Research

- PPL's revenues grew by 35% YoY in 2QFY18 thanks to 1) higher Arab Light oil prices, up 25% and 2) upward revision in Sui field's wellhead gas pricing. Moreover, unlike Pakistan Oilfields (POL), PPL did not reverse Rs4.6bn one-off that it booked in 1QFY18 on account of retrospective impact of TAL Block pricing.
- To note, the company has challenged the SRO (collection of windfall levy on oil) in Islamabad High Court (IHC) as per its notice on Feb 22, 2018, stating that existing petroleum concession agreements cannot be unilaterally revised by the Government, thereby maintaining status quo on TAL block pricing. The next hearing of the case is on Mar 15, 2018.

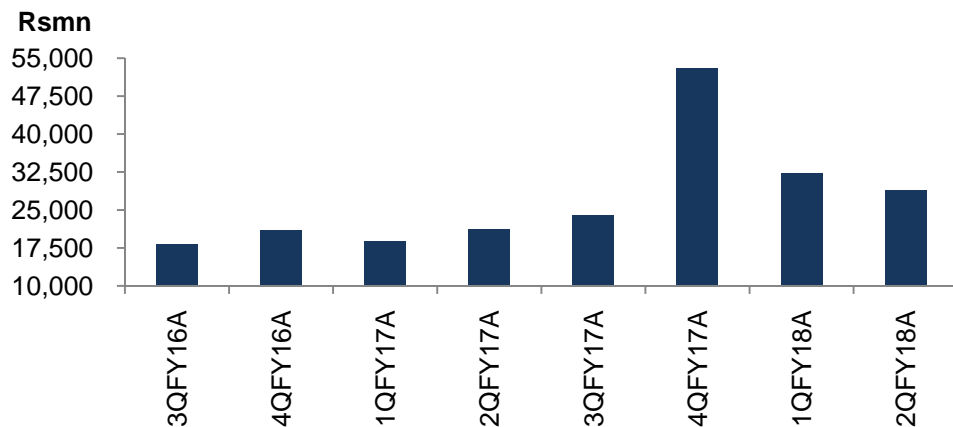
## Higher operating expenses dent earnings

- Royalties were up 61% YoY (+2ppts to 14% of net sales) in 2QFY18, attributable to royalties paid to Baluchistan Govt. as part of the agreement of Sui field price revision.
- During the outgoing quarter, PPL's operating expenses grew by 11% YoY. While we await management clarity, we believe higher expenses were on account of D&P assets.
- PPL's other income was up by a considerable 3x to Rs3.3bn. We believe that one of the factors that led to this was exchange gain on foreign currency on the back of PKR devaluation against US\$ during the quarter. To mention, PPL has foreign currency deposits of around US\$250mn as of Sep 2017.
- We flag 1) long-term volatility in international oil prices, 2) delay in key projects and 3) significant exploration and development cost as key risks for PPL.

PPL: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	21.3	26.1	19.5	8.7	18.1
Earnings Growth	3%	23%	-25%	-55%	107%
PE at Rs196.7	9.2	7.5	10.1	22.5	10.9
Dividend Yield	4%	6%	4%	3%	5%
ROE	28%	29%	19%	8%	17%
PBV	2.6	2.2	2.0	1.9	1.8

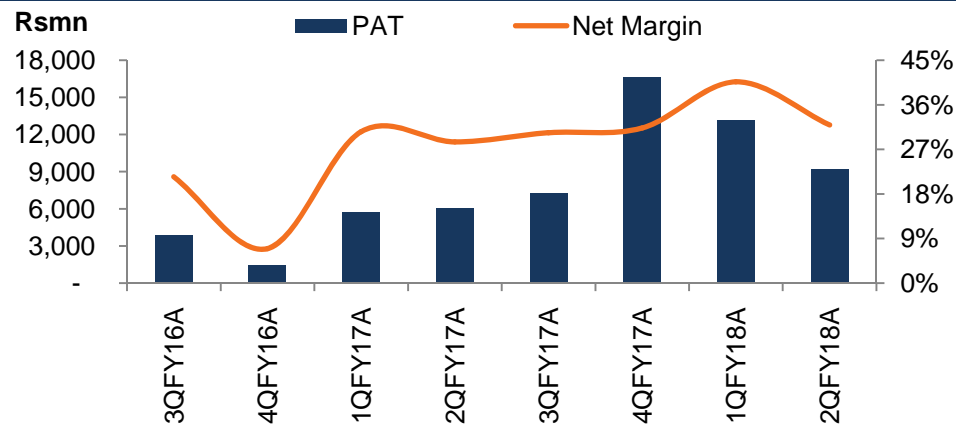
Source: Company Accounts, Topline Research

### PPL: Quarterly Sales



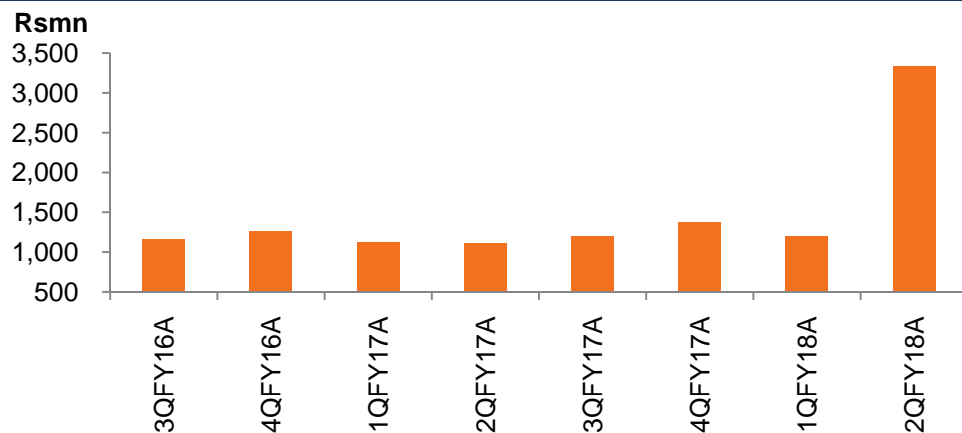
Source: Company Accounts, Topline Research

### PPL: Quarterly Profits & Net Margins



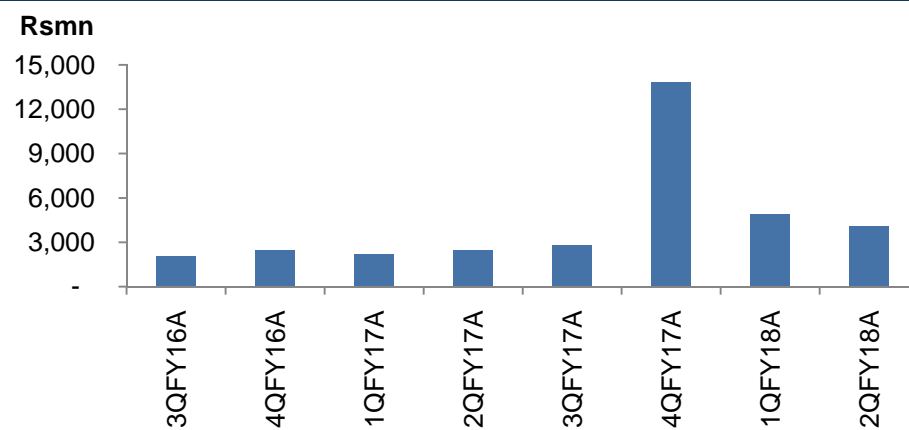
Source: Company Accounts, Topline Research

### PPL: Quarterly Other Income



Source: Company Accounts, Topline Research

### PPL: Quarterly Royalty Expense



Source: Company Accounts, Topline Research

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Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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