AKD Daily
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Today's Daily

PPL: FY16 Result Preview

PPL is scheduled to announce its FY16 financial result on Jan'17 where we expect it to post earnings of PkR20.40bn (EPS: PkR10.35), 40%YoY lower than PkR34.25bn (EPS: PkR17.37) in FY15. The decline in earnings is primarily owed to 44%YoY plunge in average oil prices to US$41/bbl in FY16 vs. US$73/bbl in FY15. Additional risk to earnings exist as recognition of impairment loss associated with Yemen's production assets can lower FY16 earnings by PkR2.03/share. The company is expected to announce a final cash dividend of PkR2.75/share taking full year dividend to PkR5.00/share in FY16. Going forward, PPL's earnings are expected to remain robust owing to improved oil price outlook, revision of Sui's wellhead gas pricing to 2012 Petroleum Policy and incremental flows from TAL block/Nashpa. PPL trades at an implied price of US$49/bbl lower than both AKD Oil & Gas Universe's US$51/bbl (at 4% discount) and our long term oil price assumption of US$55/bbl (at 11% discount). Our NAV based TP of PkR195/share, offers 6% upside, implying an Accumulate stance.

News and Views

- SBP has allowed clearinghouse membership to Central Directorate of National Savings (CDNS). SBP, in order to facilitate the general public, has issued instructions to all the banks to accept profit coupon/withdrawals slips pertaining to Pensioners Benefit Account (PBA), Behbood Saving Certificate (BSC) and Saving Account (SA) of CDNS. The investors can now deposit these instruments directly into their bank accounts, located anywhere in the country.

- The Senate Functional Committee on Devolution on Wednesday termed the government's move of placing five regulatory authorities under the ministries 'sheer violation of constitution' and asked the government to bring them under the domain of Council of Common Interests (CCI).

- HUBC has increased stake to 47.5% from 26% in the joint venture of setting up a 1,320MW power project on imported coal at an estimated cost of over US$2bn at Hub, Balochistan.

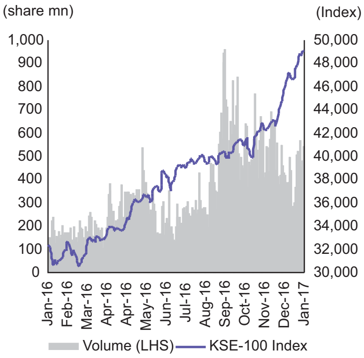
- The delayed announcement of PkR180bn incentive package for five exporting sectors (textiles, leather, footwear, sports goods and carpets), covering 70% of the total exports, has been widely welcomed.

KSE100 - Index	
Current	49,371.60
Previous	48,865.79
Chg.	1.04%

Mkt Cap. (PkRbn/US$bn)	
Current	9,862 / 94.07
Previous	9,785 / 93.34
Chg.	0.78%

Daily Turnover (mn)	
Current	460.69
Previous	413.98
Chg.	11.3%

Value Traded (PkRmn/US$mn)	
Current	24,986 / 238.32
Previous	20,190 / 192.58
Chg.	23.8%



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Result Review: PPL is scheduled to announce its FY16 financial result on Jan'17 where we expect it to post earnings of PkR20.40bn (EPS: PkR10.35), 40%YoY lower than PkR34.25bn (EPS: PkR17.37) in FY15. Decline in earnings is primarily owed to 44%YoY plunge in average oil price to US$41/bbl in FY16 vs. US$73/bbl in FY15. In this backdrop, PPL's topline is expected to fall by 24%YoY to PkR79.13bn in FY16 from PkR104.38bn in FY15. Moreover, field expenditures are expected to rise by 2%YoY to PkR43.02bn in FY16 due to aggressive exploration activity. As a result, gross profit is expected to fall by 46%YoY to PkR27.30bn in FY16 where expected 28%YoY decline in royalty expense will likely provide some relief. Other Income is expected to drop by 30%YoY to PkR5.32bn in FY16 owing to decline in short term investments. OPEX is expected to fall by 53%YoY due to lower PBT (down 43%YoY in FY16) and lower impairment loss. However, recognition of impairment loss associated with Yemen's production assets amounting up to PkR4bn in 4QFY16

PPL: Income Statement

	4QFY16E	4QFY15	YoY	3QFY16	QoQ	FY16E	FY15	YoY
Net Sales	19,902	23,792	-16%	18,114	10%	79,135	104,377	-24%
Field expenditure	(11,941)	(13,612)	-12%	(11,107)	8%	(43,023)	(42,059)	2%
Royalty	(1,990)	(2,781)	-28%	(2,037)	-2%	(8,811)	(12,213)	-28%
Gross profit	5,971	7,399	-19%	4,970	20%	27,301	50,105	-46%
Other Income	1,162	1,521	-24%	1,152	1%	5,324	7,569	-30%
OPEX	(357)	(3,200)	-89%	(298)	20%	(3,704)	(7,951)	-53%
Finance cost	(195)	(139)	40%	(165)	18%	(688)	(554)	24%
PBT	6,581	5,582	18%	5,658	16%	28,234	49,170	-43%
Tax	(1,742)	(1,276)	36%	(1,851)	-6%	(7,830)	(14,916)	-48%
NPAT	4,839	4,306	12%	3,807	27%	20,404	34,253	-40%
EPS (PkR)	2.45	2.18	12%	1.93	27%	10.35	17.37	-40%
DPS	2.75	4.00	-31%	-	-	5.00	8.50	-41%

Source: Company Accounts & AKD Research

can lower FY16 earnings by PkR2.03/share. Finance cost is expected to go up by 24%YoY to PkR688mn owing to greater real discount rate set for the decommissioning obligation. While 3% supertax on non-agreement areas is expected to raise tax expense, relatively lower pre-tax earnings (-43%YoY in FY16) & effect of tax related to depletion/royalty are expected to result in 48%YoY decline in tax expense to PkR7.83bn in FY16 vs. PkR14.92bn in FY15. The company is expected to announce a final cash dividend of PkR2.75/share taking full year dividend to PkR5.00/share in FY16 (payout ratio: 48% in FY16 vs. 49% in FY15).

Outlook: Revision of Sui's pricing formula to 2012 Petroleum Policy Price should raise wellhead gas price by 89% from FY18F providing significant lift in revenues/earnings. Sui's revised wellhead gas price is expected to significantly improve earnings profile with increase in FY18F EPS by PkR3.36/share. The conversion is expected to be retrospective with impact of FY16 to be realized in FY17F. Additional flows from TAL block and Nashpa are expected to result in incremental oil/gas production of 3,050bpd/26mmcfd over the period of FY17. These additional flows are expected to raise earnings by PkR0.99/share from FY18F.

Risks: Slide in oil price remains the main risk to declining revenues/earnings and consequently valuations. In this regard, we estimate that for every US$10/bbl decline in oil price, FY18F EPS is expected to fall by PkR1.97 or 8.1%. Besides depleting reserves (with less than 100% Reserve Replacement Ratio) risks declining production/revenues/earnings over the medium/long term . In this regard, depletion of Sui's hydrocarbon reserves is a key risk to earnings as it constitutes more than 50% share in total gas production. At present, the company is evaluating an impairment charge associated with Yemen's production assets amounting up to PkR4bn as evaluated by independent consultant. This can result in an accountant charge of up to PkR2.03/share in FY16F earnings.

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