

PPL has announced its 2QFY20 result where it posted profit after tax of Rs24.6bn (EPS: Rs10.83) in 6MFY20 as compared to profit after tax of Rs31bn (EPS: Rs13.69) in same period last year, down by 20.9% YoY.

The company has posted the revenue of Rs85.4bn against Rs78.8bn in SPLY, recording a growth of 8.4% YoY. We note that this growth is attributed to the depreciation of PKR against USD during the period.

Gross margin has slightly been squeezed to 60.2% in 6MFY20 as compared to 60.6% in 6MFY19 owing to higher operating cost which has increased by 9.7% YoY.

The increase in exploration and admin costs has mainly caused the earnings to contract which increased by 46.8% YoY and 23.9% YoY respectively. Other charges have also increased by 70.3% to Rs7.3bn in 6MFY20.

Other income has declined by 64.1% YoY to Rs2.5bn in 6MFY20 as compared to Rs6.9bn during SPLY owing to lower exchange gains. Finance cost has been increased by 96.7% YoY on account of higher provision for decommissioning cost.

PPL is currently trading at FY20E PE of 5.4x. Furthermore, the script is trading at a FY20E P/B of 0.78x which offers a discount of 38% relative to its historical 5-year average of 1.26x. We maintain our **BUY** stance on the script with a DCF based Dec-20 TP of Rs 202 which provides an upside potential of 65%. Furthermore, the dividend yield is expected to remain contracted to 2% in FY20 owing to the cashflow constraints linked to the circular debt.

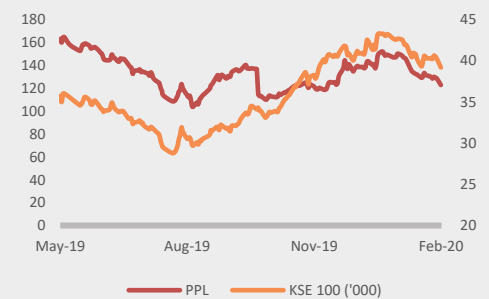
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	43,651	40,594	7.5% ▲	85,410	78,810	8.4% ▲
Operating Cost	-12,128	-10,369	17.0% ▲	-21,339	-19,456	9.7% ▲
Gross Profit	24,982	24,251	3.0% ▲	51,390	47,744	7.6% ▲
Exploration Cost	-8,878	-4,811	84.5% ▲	-11,742	-7,998	46.8% ▲
Administrative Expenses	-725	-548	32.2% ▲	-1,336	-1,079	23.9% ▲
Finance costs	-248	-130	90.8% ▲	-519	-264	96.7% ▲
Other Charges	-2,967	-2,201	34.8% ▲	-7,323	-4,301	70.3% ▲
Other Income	1,585	4,883	67.5% ▼	2,467	6,867	64.1% ▼
Profit Before Taxation	13,749	21,443	35.9% ▼	32,936	40,969	19.6% ▼
Taxation	-3,432	-4,592	25.3% ▼	-8,382	-9,930	15.6% ▼
Profit After Taxation	10,317	16,851	38.8% ▼	24,554	31,039	20.9% ▼
Earnings Per Share	4.55	7.43	38.8% ▼	10.83	13.69	20.9% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Gross Margin	57.2%	59.7%	2.5% ▼	60.2%	60.6%	0.4% ▼
Exploration Cost to Sales	-20.3%	-11.9%	8.5% ▲	-13.7%	-10.1%	3.6% ▲
Admin Cost to Sales	-1.7%	-1.4%	0.3% ▲	-1.6%	-1.4%	0.2% ▲
Other Charges to Sales	-6.8%	-5.4%	1.4% ▲	-8.6%	-5.5%	3.1% ▲
Other Income to Sales	3.6%	12.0%	8.4% ▼	2.9%	8.7%	5.8% ▼
Effective Taxation	-25.0%	-21.4%	3.5% ▲	-25.4%	-24.2%	1.2% ▲
Net Margin	23.6%	41.5%	17.9% ▼	28.7%	39.4%	10.6% ▼

Source: ACPL Research, Company Financials

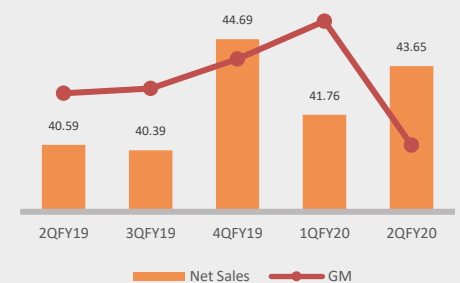
## Key Statistics

Symbol	PPL
TP - Dec 20	202.00
LDCP	122.54
Upside (%)	64.84
Free Float ('mn)	666
Market Cap. (Rs.'mn)	333,427

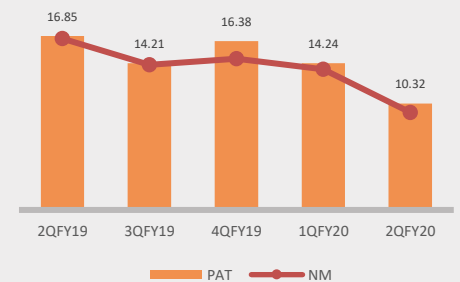
## PPL vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	104,838	80,151	116,986	126,210	163,890	171,455	163,882	186,571	184,862
Operating Expenses	-42,289	-44,952	-31,247	-33,482	-40,152	-42,006	-40,151	-45,709	-45,290
Royalty	-12,227	-9,219	-21,257	-18,512	-24,329	-25,452	-24,328	-27,696	-27,442
<b>Gross profit</b>	<b>50,322</b>	<b>25,980</b>	<b>64,482</b>	<b>74,215</b>	<b>99,408</b>	<b>103,997</b>	<b>99,404</b>	<b>113,166</b>	<b>112,129</b>
Exploration and prospecting expenditure	0	0	-10,788	-11,164	-24,858	-22,289	-20,220	-25,191	-23,933
General and administration expenses	0	0	-2,772	-2,560	-2,240	-2,675	-2,557	-2,911	-2,884
Finance Cost	-554	-659	-461	-444	-741	-1,009	-899	-991	-1,092
Other Charges	-4,063	-4,032	-7,137	-5,931	-8,166	-14,574	-13,930	-15,859	-15,713
Other income	7,611	5,418	4,804	9,319	16,528	5,635	5,635	5,635	5,635
<b>Profit before income tax</b>	<b>53,315</b>	<b>26,707</b>	<b>48,129</b>	<b>63,436</b>	<b>79,931</b>	<b>69,086</b>	<b>67,434</b>	<b>73,850</b>	<b>74,142</b>
Income tax expense	-14,916	-9,465	-12,450	-17,749	-18,299	-17,617	-17,196	-18,832	-18,906
<b>Profit for the year</b>	<b>38,399</b>	<b>17,242</b>	<b>35,679</b>	<b>45,688</b>	<b>61,632</b>	<b>51,469</b>	<b>50,238</b>	<b>55,019</b>	<b>55,236</b>
EPS	16.93	7.60	15.73	20.15	27.18	22.70	22.16	24.26	24.36
EBITDA	63,223	38,148	63,654	79,535	102,455	90,803	88,168	93,889	93,563

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	-12.50%	-23.55%	45.96%	7.88%	29.86%	4.62%	-4.42%	13.84%	-0.92%
Operating Expenses	28.86%	6.30%	-30.49%	7.15%	19.92%	4.62%	-4.42%	13.84%	-0.92%
Royalty	-14.50%	-24.60%	130.58%	-12.91%	31.42%	4.62%	-4.42%	13.84%	-0.92%
<b>Gross profit</b>	<b>-30.78%</b>	<b>-48.37%</b>	<b>148.20%</b>	<b>15.09%</b>	<b>33.95%</b>	<b>4.62%</b>	<b>-4.42%</b>	<b>13.84%</b>	<b>-0.92%</b>
Exploration and prospecting expenditure	0.00%	0.00%	0.00%	3.49%	122.66%	-10.34%	-9.29%	24.59%	-4.99%
General and administration expenses	0.00%	0.00%	0.00%	-7.65%	-12.49%	19.41%	-4.42%	13.84%	-0.92%
Finance Cost	30.26%	18.89%	-30.03%	-3.80%	67.06%	36.20%	-10.92%	10.25%	10.19%
Other Charges	-0.96%	-0.76%	76.98%	-16.90%	37.69%	78.48%	-4.42%	13.84%	-0.92%
Other income	19.27%	-28.81%	-11.33%	93.97%	77.35%	-65.90%	0.00%	0.00%	0.00%
<b>Profit before income tax</b>	<b>-28.48%</b>	<b>-49.91%</b>	<b>80.21%</b>	<b>31.81%</b>	<b>26.00%</b>	<b>-13.57%</b>	<b>-2.39%</b>	<b>9.51%</b>	<b>0.39%</b>
Income tax expense	-35.51%	-36.55%	31.54%	42.56%	3.10%	-3.73%	-2.39%	9.51%	0.39%
<b>Profit for the year</b>	<b>-25.32%</b>	<b>-55.10%</b>	<b>106.93%</b>	<b>28.05%</b>	<b>34.90%</b>	<b>-16.49%</b>	<b>-2.39%</b>	<b>9.51%</b>	<b>0.39%</b>
EPS	-25.32%	-55.10%	106.93%	28.05%	34.90%	-16.49%	-2.39%	9.51%	0.39%
EBITDA	-24.23%	-39.66%	66.86%	24.95%	28.82%	-11.37%	-2.90%	6.49%	-0.35%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	48.00	32.41	55.12	58.80	60.66	60.66	60.66	60.66	60.66
NP Margin	%	36.63	21.51	30.50	36.20	37.61	30.02	30.66	29.49	29.88
ROE	%	20.40	8.95	16.51	19.01	20.64	14.47	12.48	12.46	11.66
ROA	%	15.74	6.33	11.00	12.44	13.45	10.11	9.00	9.21	8.60
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	4.28	2.88	2.89	2.72	2.66	3.23	3.63	4.23	4.19
Quick	x	3.88	2.61	2.69	2.59	2.59	3.15	3.55	4.14	4.11
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Receivables Days		229.09	276.94	318.97	417.95	511.78	511.55	511.79	511.13	511.17
Payables Days		153.44	213.39	335.35	432.09	498.62	476.62	521.66	437.98	503.23
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		8.50	5.75	9.00	5.50	2.00	2.00	5.00	10.00	10.00
Div. Yield	%	6.94	4.69	7.34	4.49	1.63	1.63	4.08	8.16	8.16
Dividend Cover	x	1.99	1.32	1.75	3.66	13.59	11.35	4.43	2.43	2.44
Retention	%	49.81	24.38	42.80	72.70	92.64	91.19	77.43	58.79	58.95
Payout	%	50.19	75.62	57.20	27.30	7.36	8.81	22.57	41.21	41.05
No. of Shares	('m)	2.27	2.27	2.27	2.27	2.27	2.27	2.27	2.27	2.27
EPS		16.93	7.60	15.73	20.15	27.18	22.70	22.16	24.26	24.36
BVPS		83.03	84.96	95.29	106.02	131.69	156.87	177.57	194.73	208.99
P/E	x	7.24	16.12	7.79	6.08	4.51	5.40	5.53	5.05	5.03
Sales per share		46.24	35.35	51.59	55.66	72.28	75.61	72.28	82.28	81.53
P/BV	x	1.48	1.44	1.29	1.16	0.93	0.78	0.69	0.63	0.59
P/S	x	2.65	3.47	2.38	2.20	1.70	1.62	1.70	1.49	1.50
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	90.79	39.43	110.44	136.37	97.58	78.31	85.23	85.82	78.10

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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