

Day Break

Tuesday, 10 May 2016

Company Update

Pakistan Oilfields Ltd.

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	368.8
Last Closing	333.1
Upside	11%

Market Data

Bloomberg Tkr.	POL PA
Shares (mn)	236.5
Market Cap (PKRbn USDmn)	78.8 752.7
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	52.4	2.7	(16.4)
Low	222.1	189.7	189.7
High	338.4	338.4	413.3

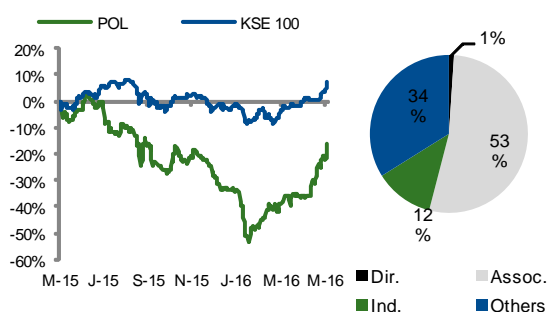
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	30.9	25.2	27.9	30.6
Net Income	8.5	7.8	8.3	9.9
EPS (PKR)	35.8	32.9	34.9	42.0
DPS (PKR)	40.0	35.0	36.0	41.0
Total Assets	55.4	49.7	51.5	53.8
Total Equity	32.4	31.9	31.6	31.9

Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	26%	24%	26%	31%
P/E (x)	9.3	10.1	9.5	7.9
P/B (x)	2.4	2.5	2.5	2.5
DY (%)	12.0	10.5	10.8	12.3

Relative Price Performance & Shareholding



About the Company

The Company is incorporated in Pakistan as a public limited company. The Company is principally engaged in exploration, drilling and production of crude oil and gas. The Company is a subsidiary of the Attock Oil Company Limited, UK and its ultimate parent is Bay View International Group, S.A.

Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Pakistan Oilfields Limited

Conversion to PP-12 and Additional Production to Drive Earnings Ahead

- Pakistan Oilfields Limited (POL) posted a growth of +7%YoY to PKR 2.2bn (EPS PKR 9.17) in 3QFY16 as compared to PKR 2.0bn (EPS PKR 8.54) in same period last year. Cumulative earnings for 9MFY16 now stand at PKR 5.8bn (EPS PKR 24.69), which is a decline of 21%YoY.
- In accordance with Supplemental Agreement signed with Government for conversion to PP12, POL received retrospective incremental income from Maramzai, Mamikhel and Makori East in respect of higher gas price applicable for the period from 1st Jul-15 to 31st Dec-15.
- We currently have a "BUY" call on POL with our Dec-16 TP of PKR 368/share, offering +11% upside from its last closing. The company is currently trading at a FY16E P/E of 10.1x and offers a healthy dividend yield of 10.5%.

Earnings leap up by +7%YoY in 3QFY16 (EPS PKR 9.17)

Pakistan Oilfields Limited (POL) posted a growth of +7%YoY to PKR 2.2bn (EPS PKR 9.17) in 3QFY16 as compared to PKR 2.0bn (EPS PKR 8.54) in same period last year. This is largely on the back of higher production from Maramzai and incremental income of PKR 648mn (PKR 2.74/share) in respect of higher gas price for Mamikhel, Maramzai and Makori East. Cumulative earnings for 9MFY16 now stand at PKR 5.8bn (EPS PKR 24.69), which is a decline of 21%YoY.

Exhibit: POL Production

	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil	594,631	576,334	3%	1,702,140	1,758,579	-3%
Gas	6,976	6,559	6%	20,717	19,695	5%
LPG	14,865	12,876	15%	40,226	36,054	12%
Solvent	6,085	3,832	59%	20,764	14,763	41%
Sulphur	199	128	55%	473	525	-10%

Source: IGI Research and Company Financials

Higher Gas price for Maramzai, Makori East and Mamikhel

In accordance with Supplemental Agreement signed with Government for conversion to PP12, POL received retrospective incremental income from Maramzai, Mamikhel and Makori East in respect of higher gas price applicable for the period from 1st Jul-15 to 31st Dec-15. As

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per our estimates, gas price for Mamikhel (PP07) and Maramzai/Makori East (PP09) has elevated by USD 0.12/mmbtu and USD 0.83/mmbtu, respectively, at oil price of USD 40/bbl. Mardankhel will also be priced under PP12 when it comes online. However, the company still awaits Governments' decision for the retrospective amount till Jun-15 for the approved concessions being converted to PP12. The company has submitted the draft to the Government which is yet to be finalized.

Oil and LPG Revenues Plunge As Prices Drop Substantially

Oil revenues plummeted by 33%YoY in 3QFY16, due to 42%YoY decline in Arab Light prices in 3QFY16 despite +3%YoY rise in production. Realized oil price stood at USD 30.5/bbl as compared to USD 48.6/bbl in the same period last year. Production increased due to 32%YoY jump in production from Maramzai.

Gas revenue increased by +14%YoY in 3QFY16 on the back of a) +43%YoY and +25%YoY incremental production from Maramzai and Makori East and b) additional income of PKR 648mn as a result of higher gas price for Maramzai, Mamikhel and Makori East for the period 1st Jul-16 to 31st Dec-16.

Exhibit: POL Revenues

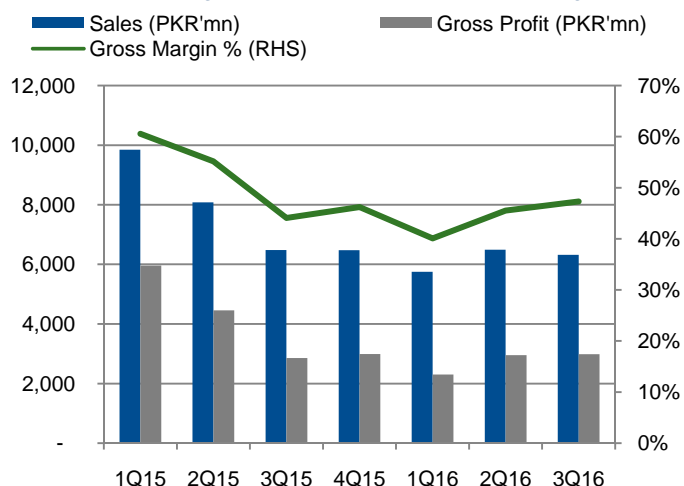
	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil	1,898	2,841	-33%	7,050	13,026	-46%
Gas	2,988	1,969	52%	7,118	5,876	21%
LPG	1,386	1,865	-26%	4,237	5,573	-24%
Solvent	45	34	31%	151	153	-1%
Sulphur	-	7	N/M	5	12	-58%
Total	6,318	6,717	-6%	18,561	24,640	-25%

Source: IGI Research and Company Financials

Exhibit: POL Realized Price

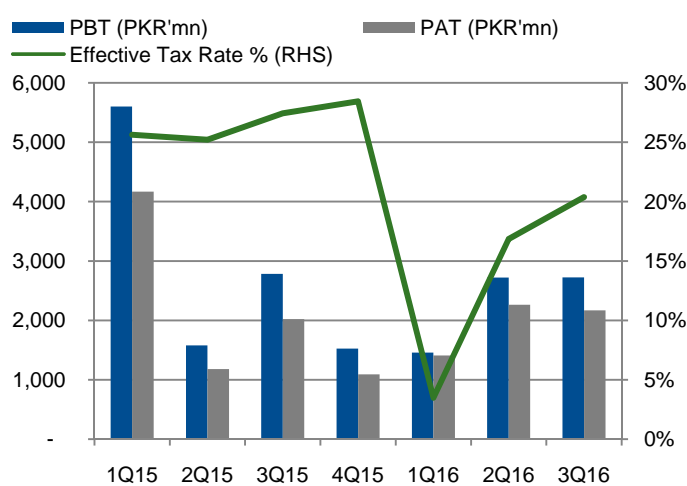
PKR	3QFY16	3QFY15	YoY
Oil (USD/bbl)	30.5	48.6	-37%
Gas (PKR/mcf)	439.8	308.3	43%
LPG (PKR/ton)	93,270	144,838	-36%

Exhibit: Gross Margins in comparison with Sales and gross Profit



Source: IGI Research, Company's Financials

Exhibit: PBT, PAT and Effective Tax Rate



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Outlook

According to management, production from Mardankhel in Tal block is likely to come online from 4QFY16, which is anticipated to contribute additional 9% and 19% to oil and gas production, respectively in FY17. Our oil price assumption is USD 38/40/bbl for FY16/FY17 with long term price of USD 50/bbl.

Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	33.0	35.0	45.0	28.8	30.7	38.2	343.5
Base	38.0	40.0	50.0	32.9	34.9	42.0	368.8
Bull	43.0	45.0	55.0	36.8	38.8	45.7	393.7

Source: IGI Research

Recommendation

We currently have a “**BUY**” call on POL with our Dec-16 TP of PKR 369/share, offering +11% upside from its last closing. The company is currently trading at a FY16E P/E of 10.1x and offers a healthy dividend yield of 10.5%.

Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	6,318	6,481	-3%	18,561	24,404	-24%
Operating Costs	2,183	2,286	-5%	6,651	6,568	1%
Royalty	502	528	-5%	1,479	2,089	-29%
Amortization of D&D Cost	580	748	-22%	1,987	2,281	-13%
Gross Profit	2,988	2,856	5%	8,245	13,275	-38%
Exploration Costs	76	18	336%	1,273	3,104	-59%
Administration Expenses	79	43	83%	155	120	30%
Finance Cost	193	275	-30%	837	797	5%
Other Income	254	419	-40%	1,345	1,360	-1%
PBT	2,724	2,784	-2%	6,904	9,964	-31%
PAT	2,169	2,020	7%	5,840	7,367	-21%
EPS (PKR)	9.17	8.54		24.69	31.14	
DPS (PKR)	-	-		15.00	15.00	

Source: IGI Research and Company Financials

Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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