

# Day Break

Tuesday, 25 August 2020

## COMPANY UPDATE

### Pakistan Oilfields Limited

Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec-20	489.9
Last Closing: 25-Aug-20	419.5
Upside (%):	16.8
Valuation Methodology:	Reserve based - Discounted Cash Flow
Time Horizon:	4M

### Market Data

Bloomberg Tkr.	POL PA		
Shares (mn)	283.9		
Free Float Shares (mn)	129.8		
Free Float Shares (%)	45.7%		
Market Cap (PKRbn   USDmn)	119.1	771.6	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	28.3	1.8	17.8
Lo	317.0	241.1	241.1
Hi	414.1	414.1	473.4

### Key Company Financials

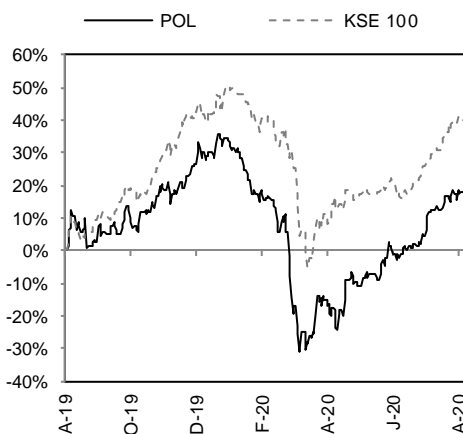
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	44.0	40.4	39.4	41.9
Net Income	16.9	16.5	14.8	15.9
EPS (PKR)	59.4	58.0	52.2	55.8
DPS (PKR)	50.0	45.0	45.0	45.0
Total Assets	81.5	83.4	85.4	88.7
Total Equity	38.1	43.0	45.1	48.1

### Key Financial Ratios

ROE (%)	35.4	47.6	40.6	33.6
P/E (x)	7.1	7.2	8.0	7.5
P/B (x)	3.6	3.1	2.8	2.6
DY (%)	11.9	10.7	10.7	10.7

### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Exploration Companies

### POL: Lower oil prices and production to drag EPS down by 56%YoY to PKR 8.9; DPS PKR 25

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 20th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 2.53bn (EPS PKR 8.90), down by 56% YoY.
- On quarterly basis, earnings are expected to drop by 53% QoQ on the back of 11%/9% QoQ decline in oil/gas production and 50% QoQ drop in oil prices.
- We recommend a 'BUY' stance on POL with our Dec-20 target price of PKR 490/share offering 17% upside from last close. The company is currently trading at FY21 P/E of 8.0x.

### Earnings to clock in at PKR 8.90/share for 4QFY20, down by 56%YoY

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 20th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 2.53bn (EPS PKR 8.90), down by 56% YoY, compared to PKR 5.70bn (EPS PKR 20.07) in the same period last year.

We estimate decline in earnings on the back a) 61% YoY drop in oil price despite 11% YoY PKR depreciation and, b) 14%/8% drop in oil/gas production. This brings total profitability for FY20E to PKR 16.47bn (EPS PKR 58.03), down by 2% YoY, compared to PKR 59.44bn (EPS PKR 59.44) in the same period last year.

We expect POL to announce cash dividend of PKR 25/share for 4QFY20 bringing total cash payout to PKR 45/share for FY20.

### Key highlights from upcoming result

- **Lower oil prices and oil/gas production to drag EPS on quarterly basis:** On quarterly basis, earnings are expected to drop by 53% QoQ on the back of 11%/9% QoQ decline in oil/gas production and 50% QoQ drop in oil prices. However, earnings decline is likely to be limited by average exchange rate appreciation of 5% QoQ.
- **Oil and gas production declined by 14% and 9% respectively during 4QFY20:** Total gas production for the Company declined by 9% YoY owing to 7% YoY drop in gas production from Tal bBock amid lower demand from refineries during Covid-19 lockdowns. As a result total gas production for FY20 is down by 4% YoY. Oil production declined by 14% YoY on account of lower production from Tal Block and Adhi field. This brings total oil production to 6,488bopd down by 10% YoY for FY20.

**Exhibit: POL Financial Highlights**

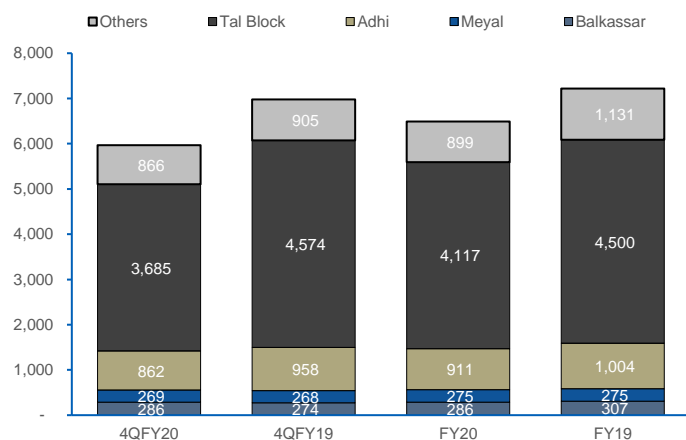
PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Net Sales	6,908	11,086	-38%	39,358	43,977	-11%
Operating Costs	2,302	2,067	11%	10,011	10,393	-4%
Royalty	757	1,222	-38%	4,177	4,554	-8%
Amortization of D&D Cost	520	495	5%	2,419	3,312	-27%
Gross Profit	3,272	7,225	-55%	22,471	25,410	-12%
Exploration Costs	190	142	34%	1,343	2,049	-34%
Finance Cost	516	1,710	-70%	2,204	3,774	-42%
Other Income	1,032	3,201	-68%	4,729	7,177	-34%
PBT	3,157	8,036	-61%	21,800	24,855	-12%
PAT	2,526	5,696	-56%	16,473	16,872	-2%
EPS (PKR)	8.90	20.07		58.03	59.44	
DPS (PKR)	25.00	30.00		45.00	50.00	

Source: IGI Research and Company Financials

No of Shares: 283.86mn

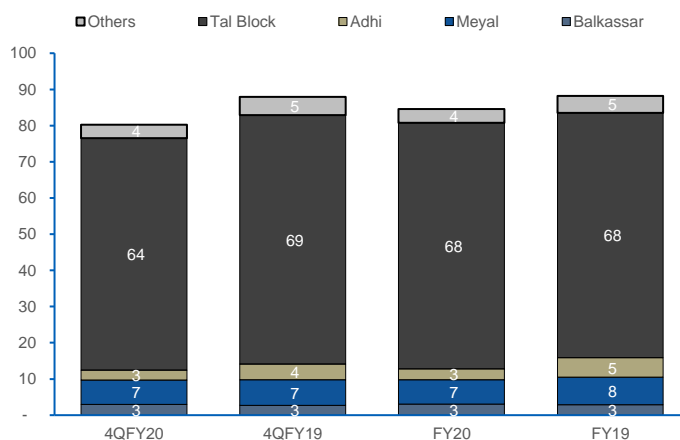
**Exhibit: POL oil production (bopd)**

Lower production from Tal block amid lower demand from refineries during Covid-19 lockdowns led to decline in total oil production



**Exhibit: POL gas production (mmcf)**

Gas production similarly remained low due to depressed flows from Tal block



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**Time Horizon:** Dec – 2020

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

(Reserve Based DCF Valuation)

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