

Day Break

Tuesday, 23 January 2018

COMPANY UPDATE

Pakistan Oilfields Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	689.4
Last Closing: 22-Jan-18	616.0
Upside:	11.9
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-18

Market Data

Bloomberg Tkr.	POL PA
Shares (mn)	236.5
Free Float Shares (mn)	108.3
Free Float Shares (%)	45.8%
Market Cap (PKRbn USDmn)	145.7 1,315.5
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	5.4 34.2 17.0
Lo	575.7 451.2 429.8
Hi	640.3 640.3 640.3

Key Company Financials

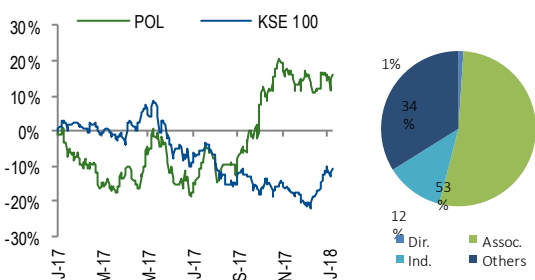
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	27.3	39.8	43.4	43.1
Net Income	9.7	15.3	16.5	16.7
EPS (PKR)	40.9	64.5	69.7	70.4
DPS (PKR)	40.0	60.0	70.0	65.0
Total Assets	57.7	73.5	77.2	78.6
Total Equity	31.5	32.6	32.5	33.8

Key Financial Ratios

ROE (%)	30.7	46.9	50.7	49.3
P/E (x)	15.1	9.5	8.8	8.7
P/B (x)	4.6	4.5	4.5	4.3
DY (%)	6.5	9.7	11.4	10.6

Relative Price Performance



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

Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

POL: Tal block impact and Jhandial to lift EPS by +2.4xYoY to PKR 23.48 in 2QFY18

- Pakistan Oilfields Limited (POL) board meeting is scheduled on 24th Jan-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 5.52bn (EPS PKR 23.37) up by +2.4xYoY.
- Spike in earnings is primarily based on one time retrospective amount in respect of revision in wellhead gas price for Tal block likely to be booked in 2QFY18 to the tune of PKR 2.9bn resulting in after tax EPS impact of PKR 7.5.
- As a result, earnings for 1HFY18 are expected to augment by +73%YoY to PKR 8.06bn (EPS PKR 34.08).
- We have a 'BUY' call on POL with our Dec-18 target price of PKR 689/share, offering +12% upside from its last close.

Earnings to clock in at PKR 23.37/share for 2QFY18, up by +2.4xYoY...

Pakistan Oilfields Limited (POL) board meeting is scheduled on 24th Jan-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 5.52bn (EPS PKR 23.37) up by +2.4xYoY compared to PKR 2.34bn in the same period last year.

Spike in earnings is primarily based on one time retrospective amount in respect of revision in wellhead gas price for Tal block likely to be booked in 2QFY18 to the tune of PKR 2.9bn resulting in after tax EPS impact of PKR 7.5. Growth in earnings is also attributable to a) +25%YoY rise in oil prices, b) +11%YoY increase in oil production on the back of production commencement from Jhandial and Makori Deep, c) +16%YoY rise in gas production owing to higher production from Adhi, Maramzai and Mardankhel and, d) +12%YoY incline in LPG production led by higher production from Mardankhel, Meyal, Maramzai and Adhi. Earnings growth is further expected to be corroborated by +3.3xYoY increase in other income on account of full year dividend income from subsidiaries. We expect the company to announce cash dividend of PKR 25/share, along with the result.

...bringing 1HFY18 EPS to PKR 34.08, up by +73%YoY

As a result, earnings for 1HFY18 are expected to augment by +73%YoY to PKR 8.06bn (EPS PKR 34.08), on the back of a) +10%/+14%/+7%YoY increase in oil/gas/LPG production and, b) +21%YoY rise in oil prices.

Exhibit:

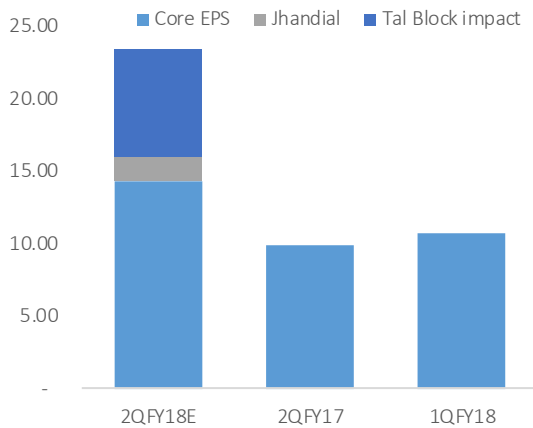
Financial Highlights

PKRmn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Net Sales	12,179	7,081	72%	19,420	12,805	52%
Operating Costs	2,156	2,093	3%	4,130	4,117	0%
Royalty	849	576	47%	1,511	1,074	41%
Amortization Cost	861	865	0%	1,373	1,426	-4%
Gross Profit	8,223	3,479	136%	12,245	6,058	102%
Exploration Costs	422	126	235%	695	190	265%
Other Income	751	231	225%	1,000	948	5%
PBT	7,786	3,145	148%	11,315	5,972	89%
PAT	5,528	2,338	136%	8,063	4,656	73%
EPS (PKR)	23.37	9.88		34.08	19.68	
DPS (PKR)	25.00	15.00		25.00	15.00	

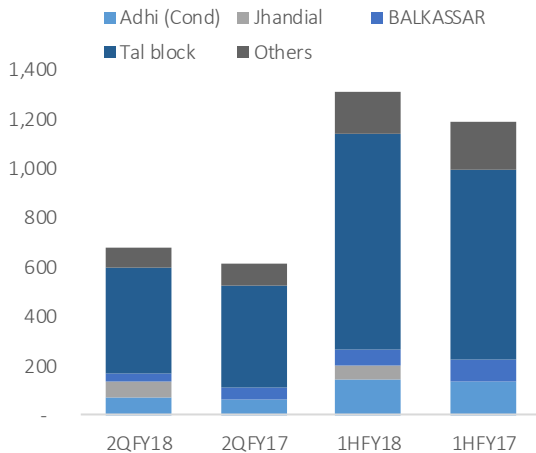
Source: IGI Research and Company Financials

No of Shares: 236.55mn

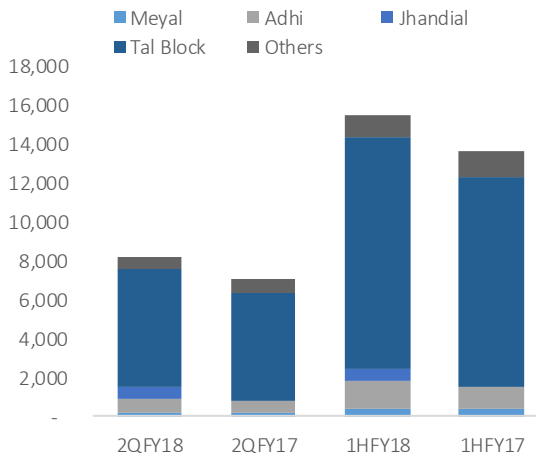
Earnings break up for 2QFY18 (PKR/share)



Oil production for 2QFY18 - (000'bbls)



Gas production for 2QFY18 - (mmcf)



Oil/gas production up by +11%/16%YoY in 2QFY18 despite lower offtake in Dec-17, Flows from Jhandial remained sub-par

Despite lower offtake from refineries in Dec-17 where oil/gas offtake dropped to as low as 6,178bopd/79mmcf compared to 8,035bopd/93mmcf during last week of Nov-17, the company still recorded +11%/+16%YoY rise in oil/gas production owing to commencement of production from Jhandial and higher production from Maramzai, Adhi and Mardankhel. However, flows from Jhandial remained below expectation averaging 1,191bopd of oil production in Dec-17 (commencement in Nov-17) as against flows reported during initial test ranging between 1,630-2,520bopd. Production flows from Jhandial during 2QFY18 is expected to accrete after tax EPS by PKR 1.7.

One-off impact to contribute nearly PKR 7.5/share to earnings in 2QFY18

Following the revision in wellhead gas prices for Tal block upon notification by Oil and Gas Regulatory Authority (OGRA), the retrospective amount to be received by POL stood at PKR 2.9bn. We expect the company to book the amount during 2QFY18 which is estimated to augment EPS by PKR 7.5.

Recommendation

We have a **'BUY'** call on POL with our Dec-18 target price of PKR 689/share, offering +12% upside from its last close. The company is currently trading at FY18E P/E of 9.5x and offers a decent dividend yield of 9.7%.

Source: Company Financials, IGI Research

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2018

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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