

# Day Break

Thursday, 26 January 2017

## COMPANY UPDATE

### PAKISTAN OILFIELDS LIMITED

OIL & GAS EXPLORATION COMPANIES

#### Recommendation **NEUTRAL**

Target Price		543.8
Last Closing	25-Jan-17	532.3
Upside		2.2

#### 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)	125.9	1,213.1
Exchange		KSE 100
<b>Price Info.</b>	90D	180D
		365D
Abs. Return	26.5	42.9
Low	396.5	348.4
High	559.6	559.6

#### Key Company Financials

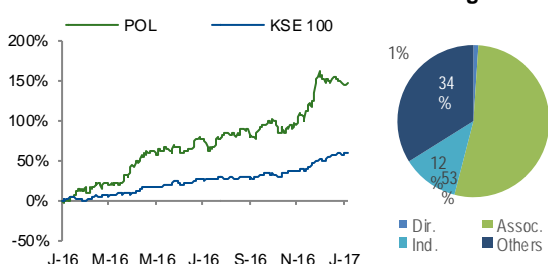
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	24.8	30.5	34.0	33.1
Net Income	7.23	10.1	12.1	11.9
EPS (PKR)	30.6	42.6	51.0	50.2
DPS (PKR)	35.0	42.0	47.0	49.0
Total Assets	55.7	59.7	63.5	64.3
Total Equity	30.2	30.3	31.2	31.5

#### Key Financial Ratios

ROE (%)	24.0	33.3	38.6	37.6
P/E (x)	17.4	12.5	10.4	10.6
P/B (x)	4.2	4.2	4.0	4.0
DY (%)	6.6	7.9	8.8	9.2

#### 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

#### Abdullah Farhan

Research Analyst

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

## Oil & Gas – Exploration and Production

### POL: Earning to Clock in at PKR 20.3/share for 2QFY17

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 27<sup>th</sup> Jan-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 2.5bn (EPS PKR 10.6) up by +11%YoY in 2QFY17.
- We attribute this substantial earnings growth to a) +19%YoY increase in oil prices, b) +2%YoY higher oil production led by +9%YoY increased production from Adhi field, and c) commencement of production from Mardankhel in Nov-16.
- We maintain our "HOLD" call on POL with our Dec-17 target price of PKR 544/share, offering +2% upside from its last closing. The company is currently trading at a FY17E P/E of 12.5x and offers a healthy dividend yield of 8%.

#### Earnings to clock in at PKR 10.4/share in 2QFY17, up by +8%YoY

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 27<sup>th</sup> Jan-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 2.5bn (EPS PKR 10.6) up by +11%YoY in 2QFY17 as compared to PKR 2.3bn (EPS PKR 9.6) in the same period last year. We attribute this substantial earnings growth to a) +19%YoY increase in oil prices, b) +2%YoY higher oil production led by +9%YoY increased production from Adhi field, and c) commencement of production from Mardankhel in Nov-16. Cumulative earnings for 1HFY17 is anticipated to clock in at 4.8bn (EPS PKR 20.4) as compared to PKR 3.7bn (EPS PKR 15.5) in the corresponding period last year. The company is expected to announce cash dividend of PKR 20/share as compared to PKR 15/share in the same period last year.

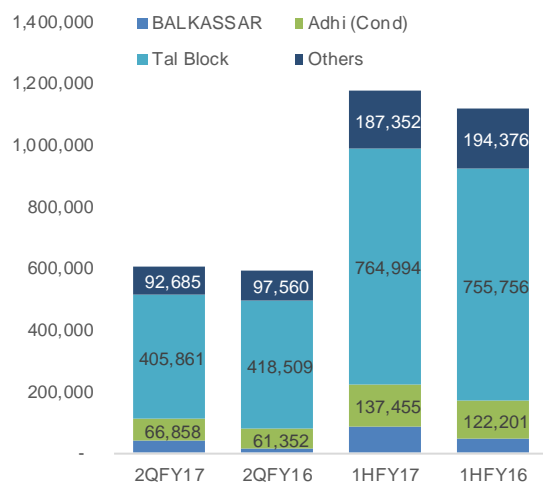
#### Commencement of Production from Mardankhel, Tal Block

Mardankhel, one of the biggest discovery since 2015 in Tal block came online in Nov-16 with initial production level of 3,200bopd of oil and 40mmcf of gas. As Tal block has been granted conversion to Petroleum Policy 2012 (PP12), gas production from Mardankhel will be priced under PP12 which is +71% higher than price under PP01. Production from Mardankhel is expected to contribute PKR 0.54/share in earnings for 2QFY17.

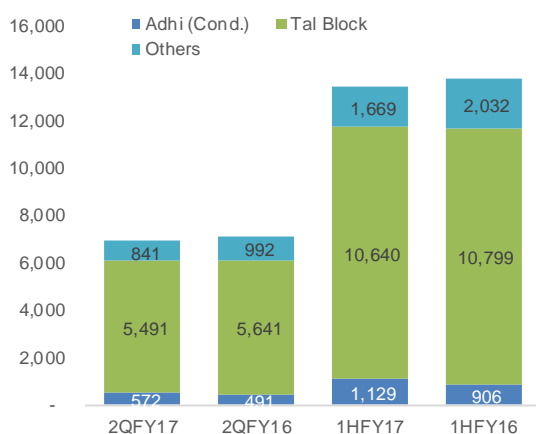
#### Oil production up by +4%YoY in 2QFY17, while gas production down by 1%YoY

Oil production is expected to increase by +4%YoY to 6,703bopd in 2QFY17 on the back of production commencement from Mardankhel (3,200bopd) and increased production from Adhi field. Gas production is estimated to decline by 1%YoY to 76.5mmcf owing to 5%YoY lower production from Tal block excluding 40mmcf production coming online from Mardankhel in Nov-16.

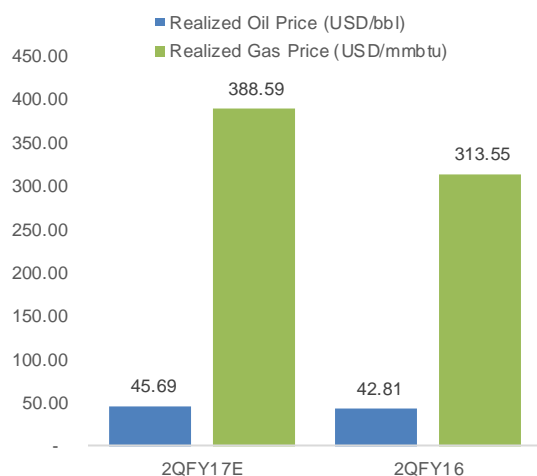
### Total Oil Production in 2QFY17 (bbls)



### Total Gas Production in 2QFY17 (mm cf)



### Realized oil and gas price



Source: Company Financials, PPIS & IGI Research

### Recommendation

We maintain our **“HOLD”** call on POL with our Dec-17 target price of PKR 544/share, offering +2% upside from its last closing. The company is currently trading at a FY17E P/E of 12.5x and offers a healthy dividend yield of 8%.

Exhibit:

### Financial Highlights

PKRmn	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
Net Sales	6,929	6,491	7%	12,653	12,243	3%
Operating Costs	2,221	2,323	-4%	4,246	4,468	-5%
Royalty	602	501	20%	1,100	978	13%
Amortization of D&D Cost	679	645	5%	1,239	1,407	-12%
Gross Profit	3,351	2,954	13%	5,930	5,258	13%
Exploration Costs	70	61	16%	135	1,196	-89%
Finance Cost	233	227	3%	428	644	-33%
Other Income	322	253	27%	1,038	1,091	-5%
PBT	3,134	2,722	15%	5,961	4,181	43%
PAT	2,507	2,264	11%	4,824	3,671	31%
EPS (PKR)	10.60	9.57		20.39	15.52	
DPS (PKR)	20.00	15.00		20.00	15.00	

Source: IGI Research and Company Financials

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**Time Horizon:** Dec - 2017

**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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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

#### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter, Opp. Radio  
Station, MansehraRoad, Abbottabad  
Phone: (+92-99) 2408243 - 44