

Day Break

Friday, 08 September 2017

COMPANY UPDATE

PAKISTAN OILFIELDS LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	551.3
Last Closing:	7-Sep-17 480.4
Upside:	14.8
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-17

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)	113.6 1,078.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(6.5)	2.9	22.6
Lo	429.8	429.8	381.2
Hi	514.0	533.2	559.6

Key Company Financials

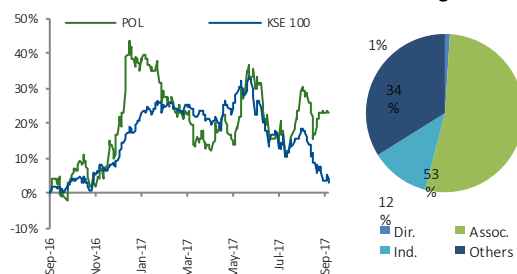
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	24.8	28.1	34.2	33.8
Net Income	7.23	10.1	11.9	11.9
EPS (PKR)	30.6	42.7	50.1	50.3
DPS (PKR)	35.0	45.0	47.0	50.0
Total Assets	55.7	60.1	64.3	64.9
Total Equity	30.2	30.8	31.8	32.1

Key Financial Ratios

ROE (%)	24.0	32.8	37.3	37.1
P/E (x)	15.7	11.3	9.6	9.6
P/B (x)	3.8	3.7	3.6	3.5
DY (%)	7.3	9.4	9.8	10.4

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, PSX & IGI Research

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Oil & Gas – Exploration Companies

POL: Oil price recovery and improved flows to drive a +40%YoY growth in earnings in FY17

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 11th Sep-17 to announce financial result for 4QFY17. We expect the company to report earnings of PKR 2.63bn (EPS PKR 11.10) up by +88%YoY in 4QFY17.
- We attribute this substantial earnings growth to a) +16%YoY increase in oil prices, b) +9%/+11%YoY rise in oil/gas production and, 63%YoY drop in exploration cost.
- Total earnings for FY17 are expected to clock in at PKR 10.09bn (EPS PKR 42.67) up by +40%YoY compared to PKR 7.23bn (EPS PKR 30.58) in the same period last year on the back of a) +19%YoY rise in oil prices, b) +21%/+12%YoY jump in oil/gas production and, c) 65%YoY decline in exploration cost.
- We maintain our "BUY" call on POL with our Dec-17 target price of PKR 551/share, offering +14.8% upside from its last closing. The company is currently trading at a FY18F P/E of 9.6x.

Earnings to clock in at PKR 11.10/share in 4QFY17, up by +88%YoY

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 11th Sep-17 to announce financial result for 4QFY17. We expect the company to report earnings of PKR 2.63bn (EPS PKR 11.10) up by +88%YoY in 4QFY17 as compared to PKR 1.39bn (EPS PKR 5.89) in the same period last year. We attribute this substantial earnings growth to a) +16%YoY increase in oil prices, b) +9%/+11%YoY rise in oil/gas production and, 63%YoY drop in exploration cost. The company is expected to announce cash dividend of PKR 30.0/share taking total FY17 dividend to PKR 45.0/share.

Earnings for FY17 to stand at PKR 42.65/share, up by +40%YoY

Total earnings for FY17 are expected to clock in at PKR 10.09bn (EPS PKR 42.67) up by +40%YoY compared to PKR 7.23bn (EPS PKR 30.58) in the same period last year. We attribute this increase in earnings owing to a) +19%YoY rise in oil prices, b) +21%/+12%YoY jump in oil/gas production and, c) 65%YoY decline in exploration cost owing to lower prospecting expense and dry well cost.

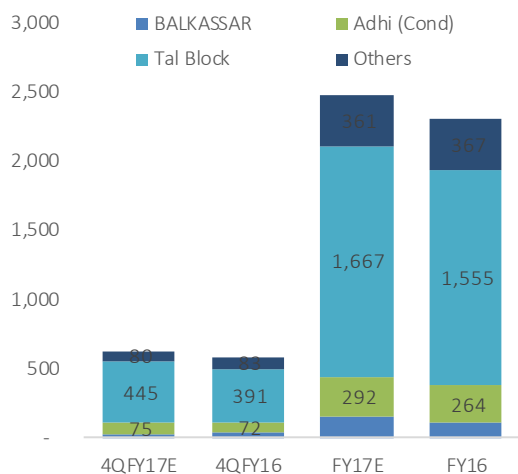
Earnings to decline on QoQ basis likely owing to lower oil price and high tax rate

On quarterly basis, earnings are expected to decline by 7%YoY during 4QFY17 on the back of a) 7%QoQ plunge in oil prices, b) 3%QoQ decline in oil production and c) higher effective tax rate of 28%. However, earnings decline is estimated to dilute on the back of +2%QoQ rise in gas production.

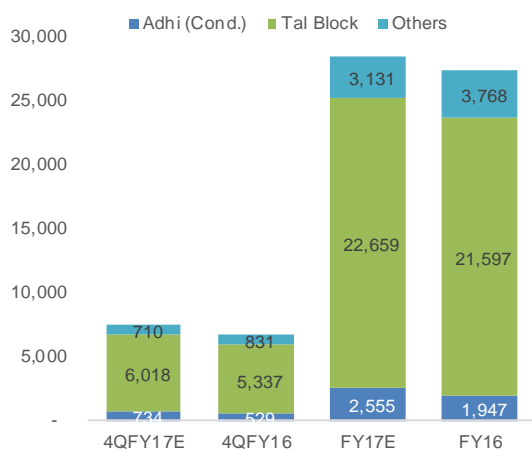
Recommendation

We maintain our "BUY" call on POL with our Dec-17 target price of PKR 551/share, offering +14.8% upside from its last closing. The company is currently trading at a FY18F P/E of 9.6x and offers a healthy dividend yield of 9.8%.

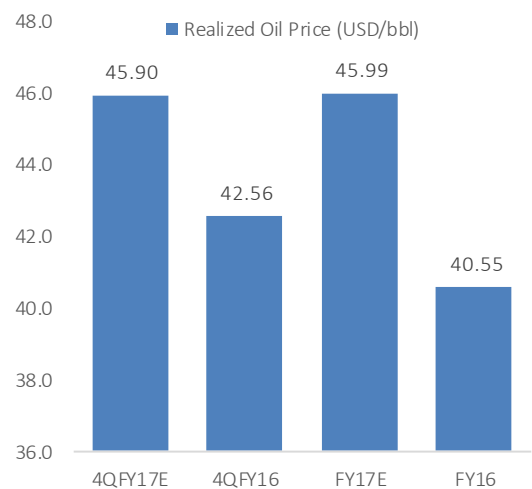
Total Oil Production in FY17 (000'bbls)



Total Gas Production in FY17 (mmcf)



Realized oil prices



Source: Company Financials, PPIS & IGI Research

Exhibit:
Financial Highlights

PKRmn	4QFY17E	4QFY16	YoY	FY17E	FY16	YoY
Net Sales	7,723	6,287	23%	28,139	24,848	13%
Operating Costs	2,293	2,221	3%	8,655	8,872	-2%
Royalty	679	541	25%	2,421	2,021	20%
Amortization Cost	541	461	17%	2,509	2,448	3%
Gross Profit	4,140	2,997	38%	14,282	11,243	27%
Exploration Costs	286	780	-63%	723	2,052	-65%
Finance Cost	195	185	5%	780	1,022	-24%
Other Income	236	66	255%	1,495	1,411	6%
PBT	3,648	1,976	85%	13,301	8,880	50%
PAT	2,627	1,394	88%	10,092	7,234	40%
EPS (PKR)	11.10	5.89		42.67	30.58	
DPS (PKR)	30.00	20.00		45.00	35.00	

Source: IGI Research and Company Financials

No of Shares: 236.55mn

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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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Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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