

Day Break

Monday, 14 October 2019

COMPANY UPDATE

Pakistan Oilfields Limited

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price:	Dec/20	503.7	
Last Closing:	11-Oct-19	395.9	
Upside:		27.2	
Valuation Methodology:	Reserve based - Discounted Cash Flow		
Time Horizon:	14M		

Market Data

Bloomberg Tkr.	POL PA		
Shares (mn)	283.9		
Free Float Shares (mn)	130.0		
Free Float Shares (%)	45.8%		
Market Cap (PKRbn USDmn)	112.4	717.7	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(4.6)	(16.0)	(27.5)
Lo	348.7	348.7	348.7
Hi	409.6	459.7	555.4

Key Company Financials

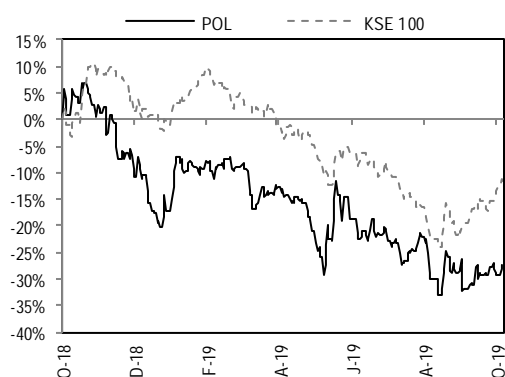
Period End: Jun

PKRbn	FY18A	FY19A	FY20F	FY21F
Total Revenue	31.9	44.0	47.5	46.6
Net Income	11.4	16.9	18.0	17.4
EPS (PKR)	40.1	59.4	63.6	61.5
DPS (PKR)	42.5	50.0	57.5	55.0
Total Assets	70.2	81.5	80.7	81.2
Total Equity	32.8	38.1	38.4	39.5

Key Financial Ratios

ROE (%)	35.4	47.6	47.2	44.8
P/E (x)	9.9	6.7	6.2	6.4
P/B (x)	3.4	3.0	2.9	2.8
DY (%)	10.7	12.6	14.5	13.9

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

POL: Lower oil prices and production to drag 1QFY20 EPS to 13.13 down by 4%YoY

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 15th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.73bn (EPS PKR 13.13), down by 4%YoY,
- We estimate decline in earnings on the back a) 16%YoY decline in oil prices despite 28%YoY PKR depreciation and, b) 5%/4% drop in oil/gas production. To note, POL did not incur any dry well cost during the quarter,
- On quarterly basis, earnings are expected to plunge by 35%QoQ on the back of higher exploration cost amid increased seismic activity in company operated block. Oil/gas production dropped by 4%/2%QoQ whereas other income is likely to drop by 74%QoQ in the absence of exchange gains and dividend income,
- We recommend a 'BUY' stance on POL with our Dec-20 target price of PKR 503.72/share offering 27% upside from last close. The company is currently trading at FY20 P/E of 6.2x and offers a dividend of 14.5%.

Earnings to clock in at PKR 13.13/share for 1QFY20, down by 4%YoY

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 15th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.73bn (EPS PKR 13.13), down by 4%YoY, compared to PKR 3.87bn (EPS PKR 13.62) in the same period last year. We estimate decline in earnings on the back a) 16%YoY decline in oil prices despite 28%YoY PKR depreciation and, b) 5%/4% drop in oil/gas production. To note, POL did not incur any dry well cost during the quarter.

On quarterly basis, earnings are expected to plunge by 35%QoQ on the back of higher exploration cost amid increased seismic activity in company operated block whereas no dry well cost was incurred during the quarter. Oil/gas production dropped by 4%/2%QoQ whereas other income is likely to drop by 74%QoQ in the absence of exchange gains and dividend income.

Exhibit:

POL Financial Highlights

PKRmn	1QFY20E	1QFY19	YoY	4QFY19	QoQ
Net Sales	9,741	10,570	-8%	11,086	-12%
Operating Costs	2,323	2,779	-16%	2,067	12%
Royalty	1,068	1,084	-2%	1,222	-13%
Amortization of D&D Cost	895	774	16%	495	81%
Gross Profit	5,376	5,856	-8%	7,225	-26%
Exploration Costs	222	731	-70%	142	57%
Finance Cost	571	402	42%	1,710	-67%
Other Income	843	841	0%	3,201	-74%
PBT	5,035	5,134	-2%	8,036	-37%
PAT	3,726	3,867	-4%	5,696	-35%
EPS (PKR)	13.13	13.62		20.07	
DPS (PKR)	-	-		30.00	

Source: IGI Research and Company Financials

No of Shares: 283.86mn

Recommendation

We recommend a 'BUY' stance on POL with our Dec-20 target price of PKR 503.72/share offering 27% upside from last close. The company is currently trading at FY20 P/E of 6.2x and offers a dividend of 14.5%.