

Flash Note

Wednesday, 13 April 2016

Oil & Gas Exploration Companies

POL: Earnings Clocked in at PKR 9.17/share, up by +7%YoY in 3QFY16

- The Company's profitability augmented by +7%YoY to PKR 2.2bn (EPS PKR 9.17) in 3QFY16 as compared to PKR 2.0bn (EPS PKR 8.54) in the corresponding period last year, largely owing to 22%YoY drop in amortization of Development and Decommissioning costs to PKR 0.6bn in 3QFY16.
- POL's earning for 9MFY16 now stands at PKR 5.8bn (EPS PKR 24.69) as compared to PKR 7.4bn (EPS PKR 31.14) in same period last year.
- Revenues declined by 3%YoY to PKR 6.3bn in 3QFY16 on the back of 42%YoY plunge in oil price.
- Although profit before tax was down by 2%YoY in 3QFY16, company's net earnings posted a +7%YoY rise owing to lower effective tax rate of 20% as compared to 27% in the same period last year.
- Company's other income shrunk by 40%YoY to PKR 0.25bn owing to lower interest rate environment, which was partly offset by 30%YoY drop in finance cost to PKR 0.19bn.

Recommendation

We currently have a strong "BUY" call on POL with our Dec-16 TP of PKR 338/share, offering +28% upside from its last closing of PKR 265/share. The company is currently trading at a FY16E P/E of 11.1x and offers a healthy dividend yield of 9.5%.

Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	6,318	6,481	-3%	18,561	24,404	-24%
Operating Costs	2,183	2,286	-5%	6,651	6,568	1%
Royalty	502	528	-5%	1,479	2,089	-29%
Amortization of D&D Cost	580	748	-22%	1,987	2,281	-13%
Gross Profit	2,988	2,856	5%	8,245	13,275	-38%
Exploration Costs	76	18	336%	1,273	3,104	-59%
Administration Expenses	79	43	83%	155	120	30%
Finance Cost	193	275	-30%	837	797	5%
Other Income	254	419	-40%	1,345	1,360	-1%
PBT	2,724	2,784	-2%	6,904	9,964	-31%
PAT	2,169	2,020	7%	5,840	7,367	-21%
EPS (PKR)	9.17	8.54		24.69	31.14	
DPS (PKR)	-	-		15.00	15.00	

Source: IGI Research and Company Financials

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

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

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer

This document has been prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

Rating system

IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@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
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	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
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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

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

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