

Flash Note

Friday, 27 January 2017

Oil & Gas – Exploration and Production

POL: Earnings reported at PKR 9.88/share in 2QFY17, up by +3%YoY

- Pakistan Oilfields Limited (POL) announced financial results for 2QFY17 with earnings clocking in at PKR 2.34bn (EPS PKR 9.88) up by +3%YoY as compared to PKR 2.26bn (EPS PKR 9.57) in the same period last year. Cumulative earnings for 1HFY17 stand at PKR 4.66bn (EPS PKR 19.68) as compared to PKR 3.67bn (EPS PKR 15.52) in the corresponding period last year.
- The company announced cash dividend of PKR 15/share for 2QFY17.
- Revenues for 2QFY17 increased by +9%YoY likely on the back of a) +19%YoY rise in oil price, b) +5%YoY increase in oil production as production from Mardankhel commenced in Nov-16 and c) +76% higher wellhead gas price under Petroleum Policy 2012 for Mardankhel.
- Amortization of development and decommissioning cost increased by +34%YoY to PKR 0.87bn in 2QFY17 as compared to PKR 0.64bn in the same period last year, while finance cost declined by 14%YoY to PKR 0.19bn compared to PKR 0.23bn in the corresponding period last year.
- Exploration cost augmented by +2.1xYoY to PKR 0.13bn on the back of higher exploration and prospecting expense while lack of any dry well cost kept a lid on exploration cost.
- Effective tax rate increased by 880bps to 26% as compared to 17% in the same period last year.

Recommendation

We maintain our “**HOLD**” call on POL with our Dec-17 with target price of PKR 544/share, offering +3% upside from its last closing. The company is currently trading at a FY17E P/E of 12.4x and offers a healthy dividend yield of 8%.

Exhibit:

Financial Highlights

PKRmn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Net Sales	7,081	6,491	9%	12,805	12,243	5%
Operating Costs	2,093	2,323	-10%	4,117	4,468	-8%
Royalty	576	501	15%	1,074	978	10%
Amortization of D&D Cost	865	645	34%	1,426	1,407	1%
Gross Profit	3,479	2,954	18%	6,058	5,258	15%
Exploration Costs	126	61	107%	190	1,196	-84%
Finance Cost	195	227	-14%	390	644	-39%
Other Income	231	253	-9%	948	1,091	-13%
PBT	3,145	2,722	16%	5,972	4,181	43%
PAT	2,338	2,264	3%	4,656	3,671	27%
EPS (PKR)	9.88	9.57		19.68	15.52	
DPS (PKR)	15.00	15.00		15.00	15.00	

Source: IGI Research and Company Financials

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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 - 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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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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