

Company Update

Pakistan Oilfields Ltd.

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price	337.5		
Last Closing	242.9		
Upside	39%		

Market Data

Bloomberg Tkr.	POL PA		
Shares (mn)	236.5		
Market Cap (PKRbn USDmn)	57.4	547.9	
Price Info.	90D	180D	365D
Abs. Return	(23.6)	(22.7)	(37.0)
Low	189.7	189.7	189.7
High	307.6	347.4	413.3

Key Company Financials

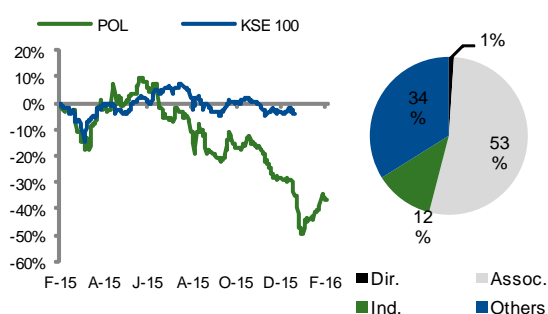
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	30.9	19.7	22.0	24.0
Net Income	8.5	5.2	6.4	7.8
EPS (PKR)	35.8	21.9	27.2	32.9
DPS (PKR)	40.0	25.0	30.0	32.0
Total Assets	55.4	49.4	50.9	53.3
Total Equity	32.4	31.6	31.0	31.2

Key Financial Ratios

ROE (%)	26%	16%	21%	25%
P/E (x)	6.8	11.1	8.9	7.4
P/B (x)	1.8	1.8	1.9	1.8
DY (%)	16.5	10.3	12.4	13.2

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

Analyst

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Pakistan Oilfields Limited

Conversion to PP-12 and Additional Production to Drive Earnings Ahead

- Pakistan Oilfields Limited (POL) announced 2QFY16 result with earnings posting a growth of +92%YoY to PKR 2.3bn (EPS PKR 9.57) compared to PKR 1.2bn (EPS PKR 4.99) in same period last year. Along with result, company announced a cash dividend of PKR 15.00/share in 2QFY16.
- Company's revenues dropped by 20%YoY to PKR 6.5bn owing to 46%YoY decline in Arab Light price in 2QFY16. However, drop in revenue was mitigated by 98%YoY plunge in exploration costs in the absence of dry and abandoned well cost.
- We currently have a strong "BUY" call on POL with our Dec-16 TP of PKR 338/share, offering +39% upside from its last closing of PKR 243/share. The company is currently trading at a FY16E P/E of 11.1x and offers a healthy dividend yield of 10.3%.

Massive Earnings Growth of +92%YoY to PKR 9.57/share in 2QFY16

Pakistan Oilfields Limited (POL) announced 2QFY16 result with earnings posting a growth of +92%YoY to PKR 2.3bn (EPS PKR 9.57) compared to PKR 1.2bn (EPS PKR 4.99) in same period last year. Cumulative earnings for 1HFY16 now stand at PKR 3.7bn (EPS PKR 15.52), which is a decline of 31%YoY. Along with result, company announced a cash dividend of PKR 15.00/share in 2QFY16.

Exhibit: POL Production

	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Oil	586,698	589,949	-1%	1,107,509	1,180,289	-6%
Gas	7,122	6,576	8%	13,741	13,122	5%
LPG	14,627	12,302	19%	25,361	23,178	9%
Solvent	7,441	5,063	47%	14,679	10,931	34%
Sulphur	183	166	10%	274	397	-31%

Source: IGI Research and Company Financials

Oil and LPG Revenues Plunge As Prices Drop Substantially

Oil revenues declined by 35%YoY/49%YoY in 2QFY16/1HFY16, due to 46%YoY/49%YoY decline in Arab Light prices as well as 1%YoY/6%YoY drop in oil production in 2QFY16/1HFY16. Tal block contributed 71% in total oil production during the quarter (68% in

Wednesday, 24 February 2016

1HFY16) due to company's heavy reliance on the field. Gas revenue increased by +14%YoY/+6%YoY in 2QFY16/1HFY16 on the back of +6%YoY incremental production from Tal block during the quarter. Major gas production also came from Tal Block, which according to our estimates contributed 79% to total gas production in 2QFY16 (79% in 1HFY16). For 1HFY16, Gas production witnessed a growth of +5%YoY to 0.14mcf. Although LPG production increased by +19%YoY/+9%YoY, revenue from LPG declined by 21%YoY/ 23%YoY owing to 34%YoY/29%YoY decline in LPG price in 2QFY16/1HFY16.

Exhibit: POL Revenues

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Oil	2,635	4,060	-35%	5,152	10,185	-49%
Gas	2,175	1,905	14%	4,129	3,907	6%
LPG	1,627	2,063	-21%	2,850	3,708	-23%
Solvent	55	46	19%	107	119	-10%
Sulphur	-	4	N/M	-	4	N/M
Total	6,491	8,078	-20%	12,238	17,923	-32%

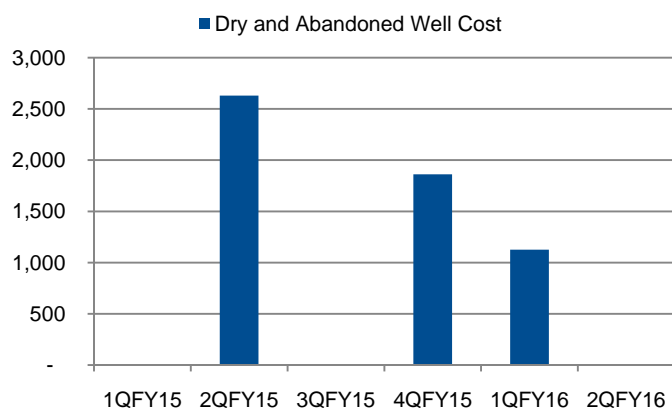
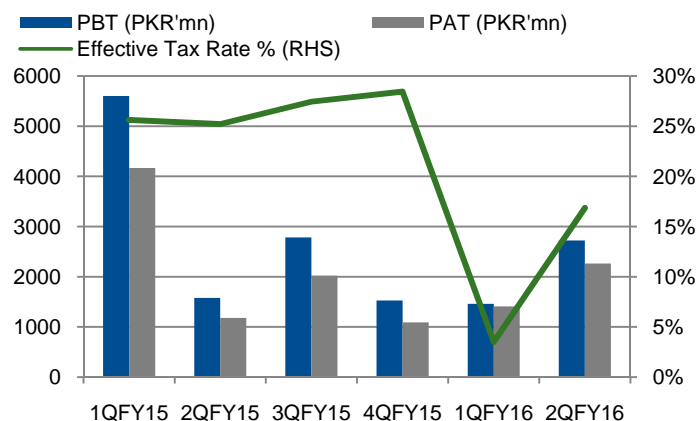
Exhibit: POL Realized Price

PKR	2QFY16	2QFY15	YoY
Oil (USD/bbl)	42.8	67.5	-37%
Gas (PKR/mcf)	277.6	263.4	5%
LPG (PKR/ton)	111,228	167,710	-34%

Source: IGI Research and Company Financials

Exploration Cost down by 98%YoY in 2QFY16

Drop in revenue was mitigated by 98%YoY sink in exploration costs during 2QFY16 due to absence of dry and abandoned well cost. However, company incurred cost of dry well to the tune of PKR 1.1bn in 1QFY16 (PKR 2.7bn in 2QFY15).

Exhibit: Cost of Dry and Abandoned Well (PKRmn)

Exhibit: PBT, PAT and Effective Tax Rate


Source: IGI Research, Company's Financials

Supplemental Agreement signed for Conversion to PP-12

According to latest financial statements, a supplemental agreement has been signed between GoP and company, for conversion of concessions to Petroleum Policy 2012, which includes Ikhlas, DG Khan, Kirthar South, Margala, Margala North, Gurgalot and Tal Block. This conversion would be applicable on above blocks according to timeline of their discoveries and respective Petroleum Policies of 2007, 2009 and 2012. Future discoveries along with blocks discovered after 2012 will be covered in Petroleum Policy 2012. As per management estimates, upon finalization of conversion documentation, the due amount in lieu of Tal Block (Mamikhel, Maramzai and Makori East) and Domial in Ikhlas block, up until 30th Jun-15 accumulates to USD 34.39mn (PKR 3,597mn). The detail documentation of the conversion to PP-12 is

expected to be finalized within next six months, whereas gas price notification and payments would be issued in 12 months time period after the finalization of documentations.

Outlook

According to management, production from Mardankhel in Tal block is likely to come online from 4QFY16, which is anticipated to contribute additional 9% and 19% oil and gas production, respectively in FY17. Our oil price assumption is USD 35/40/bbl for FY16/FY17 with long term price of USD 50/bbl.

Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	30.0	35.0	45.0	18.4	24.4	30.1	316.2
Base	35.0	40.0	50.0	21.9	27.2	32.9	337.5
Bull	40.0	45.0	55.0	24.2	29.9	35.6	356.7

Source: IGI Research

Recommendation

We currently have a strong “BUY” call on POL with our Dec-16 TP of PKR 338/share, offering +39% upside from its last closing of PKR 243/share. The company is currently trading at a FY16E P/E of 11.1x and offers a healthy dividend yield of 10.3%.

Exhibit: Financial Highlights

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Net Sales	6,491	8,078	-20%	12,243	17,923	-32%
Operating Costs	2,323	2,133	9%	4,468	4,282	4%
Royalty	501	643	-22%	978	1,561	-37%
Amortization of D&D Cost	645	781	-17%	1,407	1,533	-8%
Gross Profit	2,954	4,457	-34%	5,258	10,419	-50%
Exploration Costs	61	2,799	-98%	1,196	3,087	-61%
Administration Expenses	38	39	-2%	76	77	0%
Finance Cost	227	25	827%	644	522	23%
Other Income	253	110	129%	1,091	940	16%
PBT	2,722	1,578	72%	4,181	7,180	-42%
PAT	2,264	1,180	92%	3,671	5,347	-31%
EPS (PKR)	9.57	4.99		15.52	22.60	
DPS (PKR)	15.00	15.00		15.00	15.00	

Source: IGI Research and Company Financials

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.

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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

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