

# Day Break

Thursday, 13 September 2018

## COMPANY UPDATE

### Pakistan Oilfields Limited

Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>NEUTRAL</b>	
Target Price:	595.5	
Last Closing: 12-Sep-18	647.7	
Upside:	- 8.1	
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)	
Time Horizon:	Dec-18	

### 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)	153.2	1,245.2
Exchange	KSE 100	
<b>Price Info.</b>	90D	06M 12M
Abs. Return	(6.2)	4.7 33.1
Lo	617.4	603.9 462.2
Hi	693.4	707.3 707.3

### Key Company Financials

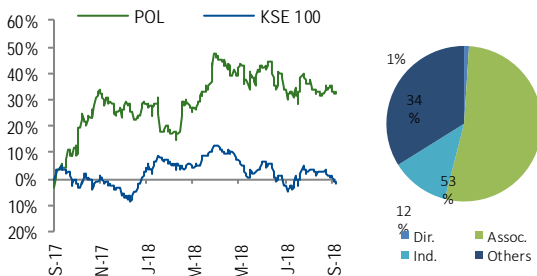
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	31.9	49.1	47.4	42.2
Net Income	11.4	17.6	17.3	14.8
EPS (PKR)	48.1	74.4	73.1	62.6
DPS (PKR)	42.5	65.0	65.0	57.5
Total Assets	57.7	70.2	74.8	77.1
Total Equity	32.8	35.0	36.9	38.1

### Key Financial Ratios

ROE (%)	34.7	50.3	46.9	38.9
P/E (x)	13.5	8.7	8.9	10.3
P/B (x)	10.9	4.7	4.4	4.2
DY (%)	6.6	10.0	10.0	8.9

### Relative Price Performance



### 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: Substantial reserve size yet to translate in to production flows; 'Hold' call intact

- We have revised down our earnings estimate and target price for Pakistan Oilfields Limited (POL) by 15%/12%/18% for FY19/20/21F based on a) lower than expected oil & gas flows from Jhandial despite substantial reserves base, b) depleting reserve base of Tal block towards the end leading to decline in production, c) reversion of Tal block wellhead gas price to Petroleum Policy 1997 (PP97) and, d) higher reserve base of Joyamair and Pindori yet to be reflected in production,
- However favorable decision on Tal block and development of reserves (Jhandial, Joyamair and Pindori) will provide an uplift to POL's earnings. As a result we have revised down our target price to PKR 595.5/share (down by 14%), thus maintaining 'Hold' Call on the scrip,
- POL is currently trading at PKR 658.0/share which includes final cash dividend for FY18 of PKR 25.0/share, for which the adjusted ex-dividend date is 17<sup>th</sup> Sep-18. We maintain our 'HOLD' stance on the scrip with our revised Dec-18 target price of PKR 595.5/share offering 8.1% downside from last close.

### Earnings and Target price revised down on lower production; Maintain 'HOLD'

We have revised down our earnings estimate and target price for Pakistan Oilfields Limited (POL) by 15%/12%/18% for FY19/20/21F based on a) lower than expected oil & gas flows from Jhandial despite substantial reserves base, b) depleting reserve base of Tal block towards the end leading to decline in production, c) reversion of Tal block wellhead gas price to Petroleum Policy 1997 (PP97) and, d) higher reserve base of Joyamair and Pindori yet to be reflected in production. We have also revised upwards our oil price assumption for FY19 to USD 70/bbl from previously USD 65/bbl. However favorable decision on Tal block and development of reserves (Jhandial, Joyamair and Pindori) will provide an uplift to POL's earnings. As a result we have revised down our target price to PKR 595.5/share (down by 14%), thus maintaining 'Hold' Call on the scrip.

### Jhandial flows remain below par despite reported substantial reserve base

POL discovered oil & gas reserves in Jhandial in Oct-17 which lies in Ikhlas block operated by POL with a working interest of 80%, where the management of the Company reported estimated flows in the range of 1,630-2,520bopd of oil and 16.5-21.0mmcf of gas. As at Dec-17, Jhandial's reserve size was reported at 23.89mn bbls of oil and 0.29tcf of gas which as at Jun-18 still stands at 23.76mn bbls and 0.29tcf. However, oil and gas flows from Jhandial have averaged around ~850bopd and 8.4mmcf respectively in FY18 (since commencement of production in last week of Oct-17), with current production standing at 404bopd and 4.8mmcf.

As a result of below par production, reserve life of Jhandial at current production of 404bopd and 4.8mmcf stands at 161yrs for oil and 166yrs for gas. Based on reported flows at time of discovery, Jhandial's reserve life would have stood at 26yrs for oil and 38yrs for gas. However, at oil price assumption of USD 70/bbl and exchange rate of PKR 125/USD, earnings impact of oil & gas flows from Jhandial now stands at PKR 6.91/share at our estimation of oil and gas flows of 600bopd and 8mmcf respectively. However, we await clarity on the development of these reserves as no further drilling of development/appraisal wells has been planned so far to enhance flows from the field. With substantial reserve size and lower production flows, the inflated reserve life does not depict a true picture of the POL's reserve life. The Company is currently evaluating Jhandial-01 to assess the true potential of the well. Every 100bopd and 1mmcf of increase in oil and gas flows would lead in incremental earnings impact of PKR 1.00/share on POL's earnings.

Exhibit:

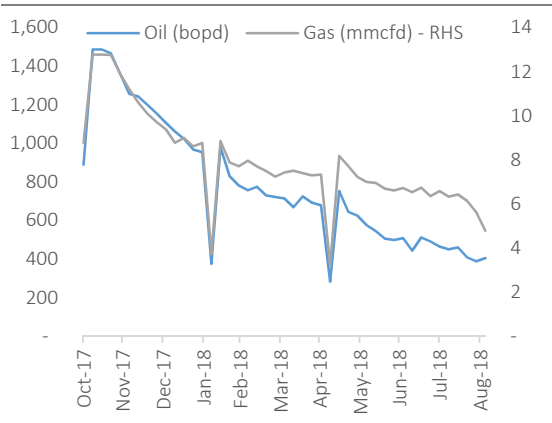
**Sentivity to FY19 EPS on flows from Jhandial**

	Reserves	Production (oil & gas)			
Oil	23.76 mn bbls	400 bopd	600 bopd	800 bopd	1000 bopd
Gas	919.80 bcf	6 mmcf	8 mmcf	10 mmcf	12 mmcf
EPS (PKR)		72.26	74.38	76.50	78.62

Source: IGI Research

Exhibit:

**Weekly Jhandial Oil & Gas Production since inception in Oct-17**



Source: PPIS, IGI Research

**Joyamair and Pindori hold substantial reserves, however increased production remains impetus on development of these wells**

According to data reported by Pakistan Petroleum Information Services (PPIS), Joyamair and Pindori oil reserves were revised upwards by 221.7x and 2.9x to 13.3mn bbls and 2.1mn bbls respectively as at Jun-18. However, current production from Joyamair and Pindori in FY18 stood at 23bopd and 183bopd with new discovery from Joyamair Deep-01 yielding only 26bopd as reported by the management in Annual Report for FY18. Including the new discovery of Joyamair Deep, the reserve life of Joyamair and Pindori at FY18 production and revised reserves comes at 737yrs and 32yrs respectively. This brings total reserve life of POL, including reserve and production ratio of Jhandial, to 14.5yrs whereas excluding Jhandial and Joyamair comes at 5.9yrs. The Reserve Replacement Ratio (RRR) stood at +8.3x in FY18, however excluding Jhandial, Joyamair and Pindori reserves the total RRR stood at net depletion of 0.6x.

We await further clarity on the matter on development of these reserves of Joyamair, Pindori and Jhandial from the management. If these wells are developed to enhance oil & gas flows, only then can we witness a reflection of these reserves in POL’s earnings.

**Depleting reserve base of Tal Block dragging down reserves replacement excluding Jhandial and Joyamair**

Oil production from Tal block increase by +4%YoY in FY18 on the back on commencement of production from Makori Deep, Tolanj and Tolanj West cumulatively adding 0.8mn bbls. However, excluding these wells Tal block witnessed a natural depletion of 6%YoY primarily owing to 18%YoY drop in flows from Makori East. As a result of this total reserve life of Tal block now stands at 3.5yrs. Tal block contribute nearly 65% of total oil production and 77% of total gas production, thus due to depletion of tal block reserves POL’s 5yr earnings CAGR stands at negative 23%.

Furthermore, reversion of Tal block to PP97 has also shed nearly 12%-14% of POL’s annual earnings. The Company has filed a petition in Islamabad High Court (IHC) to waive off windfall levy on oil under the Supplemental Agreement (SA) signed by the Company offer higher gas price incentive. Upon favorable outcome of the case, we expect POL’s earnings to accrete by 12-14% annually leading to Target price addition of PKR 70-80/share.

**Recommendation**

POL is currently trading at PKR 658.0/share which includes final cash dividend for FY18 of PKR 25.0/share, for which the adjusted ex-dividend date is 17<sup>th</sup> Sep-18. We maintain our ‘HOLD’ stance on the scrip with our revised Dec-18 target price of PKR 595.5/share offering 8.1% downside from last close. The company is currently trading at FY19 P/E of 8.7x and offers a dividend yield of 10.0%.

## Sensitivities of earnings to change in oil prices and PKR

Exhibit:

### EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) – Dec'18
	FY19	FY20	FY21	FY19	FY20	FY21	
Bear	65.0	55.0	50.0	69.8	68.0	57.7	580.7
Base *	70.0	60.0	55.0	74.4	73.1	62.6	595.5
Bull 1	75.0	65.0	60.0	78.9	78.3	67.5	610.2
Bull 2	80.0	70.0	65.0	83.5	83.5	72.5	624.8
Bull 3	85.0	75.0	70.0	88.0	88.5	77.4	639.4

Source: IGI Research

\* FY21 onwards at USD 50/bbl

Exhibit:

### EPS and Target Price Sensitivity to Oil Prices

Scenarios	PKR/USD	Change	EPS	Change	Target Price (PKR) - Dec-18	Change
	FY19	%	FY19	%		%
Bear 2	118.93	-10%	64.62	-13%	551.58	-7%
Bear 1	125.54	-5%	69.50	-7%	573.52	-4%
Base	132.15	0%	74.38	0%	595.47	0%
Bull 1	138.75	5%	79.26	7%	617.41	4%
Bull 2	145.36	10%	84.14	13%	639.36	7%

Source: IGI Research

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**Time Horizon:** Dec – 2018

**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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