

Day Break

Tuesday, 27 September 2016

Company Update

Pakistan Oilfields Ltd.

Oil & Gas Exploration Companies

Recommendation	HOLD
Target Price	428.6
Last Closing	386.5
Upside	10%

Market Data

Bloomberg Tkr.	POL PA
Shares (mn)	236.5
Market Cap (PKRbn USDmn)	91.4 872.5
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	12.3	48.3	28.5
Low	347.5	256.3	189.7
High	408.7	408.7	408.7

Key Company Financials

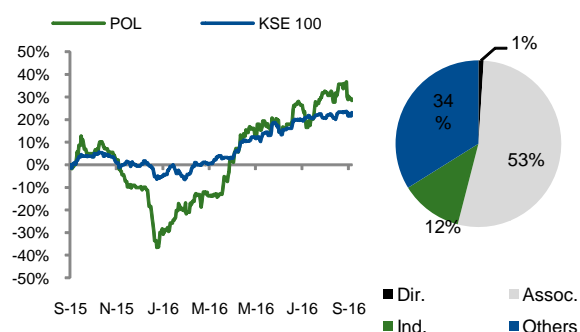
Period End: Jun

PKRbn	FY15A	FY16A	FY17F	FY18F
Total Revenue	30.9	24.8	30.2	33.8
Net Income	8.5	7.2	9.8	12.0
EPS (PKR)	35.8	30.6	41.3	50.7
DPS (PKR)	40.0	35.0	40.0	47.0
Total Assets	55.4	55.7	59.4	63.5
Total Equity	32.4	30.2	30.5	31.3

Key Financial Ratios

ROE (%)	26%	24%	32%	38%
P/E (x)	10.8	12.6	9.4	7.6
P/B (x)	2.8	3.0	3.0	2.9
DY (%)	10.3	9.1	10.3	12.2

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

Abdullah Farhan
abdullah.farhan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Pakistan Oilfields Limited

Oil Price Slump Hits Bottom Line in FY16

- Pakistan Oilfields Limited (POL) posted a decline of 14%YoY in earnings to PKR 7.2bn (EPS PKR 30.58) in FY16 as compared to PKR 8.5bn (EPS PKR 35.76) in same period last year.
- We have revised upwards our earnings estimates for FY17E and FY18 to PKR 41/share and PKR 50/share incorporating full year financial statements. We base our incremental earnings on a) lower exploration expense, b) higher production potential from Makori Deep 1, c) production uplift expected from development and appraisal well from Tal block
- We have rolled forward our target price for POL to Jun-17 from earlier Dec-16. We maintain “**HOLD**” call with target price of PKR 429/share, offering +10% upside from its last closing.

Earnings down by 14%YoY in FY16 (EPS PKR 30.58)

Pakistan Oilfields Limited (POL) posted a decline of 14%YoY in earnings to PKR 7.2bn (EPS PKR 30.58) in FY16 as compared to PKR 8.5bn (EPS PKR 35.76) in same period last year. This is largely on the back of 44%YoY drop in oil prices to USD 40.7/bbl along with +2%YoY higher operational costs at Tal Block.

Higher gas price pushes earnings up by +28%YoY in 4QFY16

For 4QFY16, earnings augmented by +28%YoY to PKR 1.4bn (EPS PKR 5.89) owing to a) incremental gas price for Mamikhel, Maramzai and Makori East priced under Petroleum Policy 2009 and 2012 (PP09 and PP12), and b) higher oil and gas production by +8%YoY and +7%YoY respectively, owing to incremental production from Tal Block. Along with the result, POL also announced cash dividend of PKR 20/share taking FY16 cumulative dividends to PKR 35/share.

Exhibit: POL Production

	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Oil	583,975	540,934	8%	2,281,950	2,299,513	-1%
Gas	6,697	6,264	7%	27,415	25,959	6%
LPG	14,098	12,966	9%	54,310	49,020	11%
Solvent	6,921	4,484	54%	25,663	19,247	33%
Sulphur	176	117	50%	636	642	-1%

Source: IGI Research and Company Financials

Higher gas price for Maramzai, Makori East and Mamikhel

In accordance with Supplemental Agreement signed with Government for conversion to PP12, POL received retrospective incremental income to the tune of PKR 648mn (PKR 2.7/share) from Maramzai, Mamikhel and Makori East in respect of higher gas price applicable from 1st Jul-15 to 31st Dec-15. As per our estimates, gas price for Mamikhel (PP07) and Maramzai/Makori East (PP09) has elevated by USD 0.12/mmbtu and USD 0.83/mmbtu respectively, at oil price of USD 45/bbl. Mardankhel will also be priced under PP12 which is predicted to come online by Oct-16.

Oil and LPG revenues plunge as prices drop, while gas revenues rise on the back of incremental price

Oil revenues plummeted by 41%YoY in FY16, due to 44%YoY decline in Arab Light prices and 1%YoY drop in production. Realized oil price stood at USD 40.6/bbl as compared to USD 69.8/bbl in the same period last year. Gas revenue increased by +24%YoY in FY16 on the back of a) +6%YoY rise in production (mainly from Maramzai and Markori East), and b) higher gas price for Maramzai, Mamikhel and Makori East under PP09 and PP12 and incremental income for the period 1st Jul-15 to 31st Dec-15. However, LPG revenues plunged by 19%YoY due to 11% drop in LPG price in FY16.

Exhibit: POL Revenues

PKR'mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Oil	2,601	3,240	-20%	9,652	16,266	-41%
Gas	2,509	1,884	33%	9,627	7,760	24%
LPG	1,136	1,081	5%	5,373	6,654	-19%
Solvent	35	36	-1%	186	189	-1%
Sulphur	5	-	N/M	10	12	-12%
Total	6,287	6,241	1%	18,530	24,164	-23%

Exhibit: POL Realized Price

	FY16	FY15	YoY
Oil (USD/bbl)	40.6	69.8	-42%
Gas (PKR/mmcf)	360.5	306.9	17%

Source: IGI Research and Company Financials

Exhibit: Gross Margins in comparison with Sales and Gross Profit

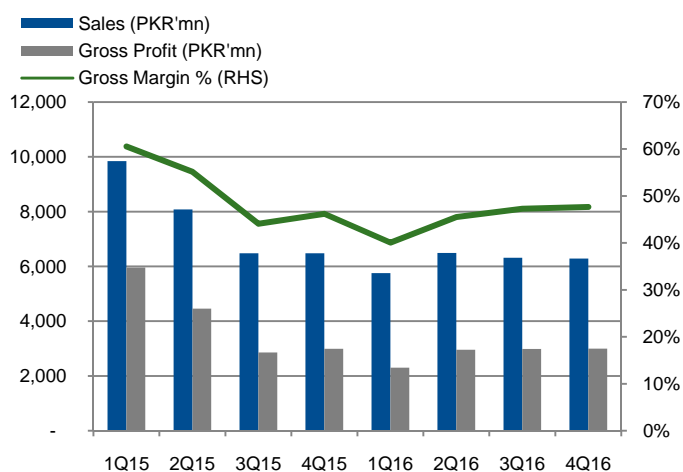
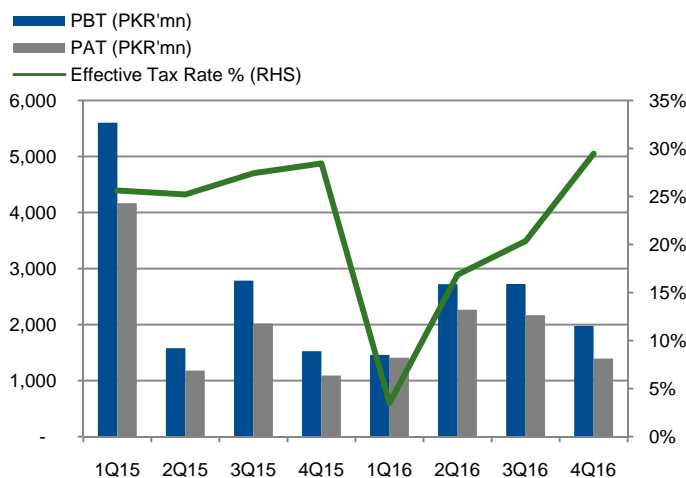


Exhibit: PBT, PAT and Effective Tax Rate



Source: IGI Research, Company Financials

Outlook

We have revised upwards our earnings estimates for FY17E and FY18F to PKR 41/share (up by +8%) and PKR 51/share (up by +20%) based on a) lower exploration expense owing to conservative exploration activity, b) higher production potential from Makori Deep 1 predicted to come online in May-17, and c) production uplift anticipated from development and appraisal well from Tal block. Mardankhel is forecasted to come online by Oct-16, while Tolanj West 1/Makori Deep 1/Makori East 5 is foreseen to commence production from 4QFY16. As a result, earnings are expected to augment by PKR 8.4/share and PKR 14.6/share in FY17 and FY18, respectively. Incremental gas price for Makori East, Maramzai and Mamikhel is calculated to add PKR 3.97/share to company's earning in FY17.

Moreover, the company expects to receive USD 34.39mn or PKR 3.6bn (PKR 15.27/share) for accumulated earnings till Jun-15 for incremental gas price under Supplemental Agreement signed with Government in respect of Maramzai, Makori East, Mamikhel (Tal block) and Domial (Ikhlas Block).

Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) – Jun'17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	40.0	45.0	45.0	36.9	45.7	45.9	402.5
Base	45.0	50.0	50.0	41.2	50.4	50.5	429.1
Bull	50.0	55.0	55.0	45.4	55.0	55.0	454.9

Source: IGI Research

Recommendation

We have rolled forward our target price for POL to Jun-17 from earlier Dec-16. We maintain “**HOLD**” call with target price of PKR 429/share, offering +10% upside from its last closing. The company is currently trading at a FY17E P/E of 9.4x and implied oil price of USD 41/bbl, offering a healthy dividend yield of 10.3%.

Exhibit: Financial Highlights

PKRmn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Net Sales	6,287	6,477	-3%	24,848	30,881	-20%
Operating Costs	2,221	2,158	3%	8,872	8,726	2%
Royalty	541	521	4%	2,021	2,610	-23%
Amortization of D&D Cost	461	746	-38%	2,448	3,027	-19%
Gross Profit	2,997	2,992	0%	11,243	16,267	-31%
Exploration Costs	780	1,625	-52%	2,052	4,729	-57%
Finance Cost	185	190	-3%	1,022	987	4%
Other Income	66	204	-67%	1,411	1,563	-10%
PBT	1,976	1,526	29%	8,880	11,489	-23%
PAT	1,394	1,092	28%	7,234	8,459	-14%
EPS (PKR)	5.89	4.62		30.58	35.76	
DPS (PKR)	20.00	25.00		35.00	40.00	

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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Jun - 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)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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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
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbotabad)	Tel: (92-992) 408243-44	zeeshan.kayani@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