

Day Break

Friday, 12 August 2016

Company Update

Pakistan Oilfields Ltd.

Oil & Gas Exploration Companies

Recommendation	HOLD
Target Price	374.7
Last Closing	377.7
Upside	-1%

Market Data

Bloomberg Tkr.	POL PA
Shares (mn)	236.5
Market Cap (PKRbn USDmn)	89.3 855.0
Exchange	KSE 100

Price Info.

	90D	180D	365D
Abs. Return	10.5	58.4	4.9
Low	334.7	234.2	189.7
High	382.9	382.9	382.9

Key Company Financials

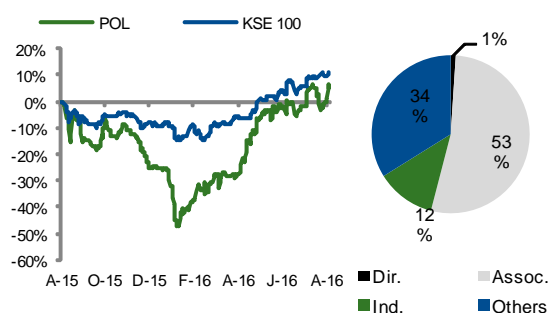
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	30.9	25.3	29.4	31.0
Net Income	8.5	7.5	9.0	10.0
EPS (PKR)	35.8	31.5	38.1	42.3
DPS (PKR)	40.0	32.0	38.0	41.0
Total Assets	55.4	49.6	53.6	55.2
Total Equity	32.4	32.2	32.3	32.6

Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	26%	23%	28%	31%
P/E (x)	10.6	12.0	9.9	8.9
P/B (x)	2.8	2.8	2.8	2.7
DY (%)	10.6	8.5	10.1	10.9

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

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Pakistan Oilfields Limited

Subdued Oil Prices to Drag Earnings down in FY16 to PKR 31.5/share

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 16th Aug-16, where we expect the company to post earnings of PKR 1.6bn (EPS PKR 6.81) up by +47%YoY in 4QFY16 as compared to PKR 1.1bn (EPS PKR 4.62) in the same period last year.
- Discovery in Mardakhel is expected to come online from 1QFY17, which is anticipated to contribute additional 9%/19% to oil/gas production, respectively in FY17.
- The scrip is currently trading at FY17E P/E multiple of 9.9x. With our Dec-16 TP of PKR 375/share from its last close of PKR 378/share, hence we maintain 'HOLD' call on the scrip.

Earnings to Clock in at PKR 6.81/share in 4QFY16

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 16th Aug-16, where we expect company to post earnings of PKR 1.6bn (EPS PKR 6.81) up by +47%YoY in 4QFY16 as compared to PKR 1.1bn (EPS PKR 4.62) in the same period last year. We attribute this increase in earnings to a) +8%YoY/+7%YoY increase in oil/gas production in 4QFY16 and, b) higher gas price for Mamikhel (Petroleum Policy 2007) and Maramzai/Makori East (Petroleum Policy 2009). However, on quarterly basis, earnings are estimated to dilute in 4QFY16 on the back of dry well cost expected to the tune of PKR 1.0bn incurred on Tolanj South.

Profitability in FY16 is forecasted to decline by 10%YoY to PKR 7.5bn (EPS PKR 31.50). Along with the result, we expect the company to pay cash dividend of PKR 17/share in 4QFY16, taking total dividends for FY16 to PKR 32/share.

Exhibit: POL Production

	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Oil	583,975	540,934	8%	2,316,038	2,299,513	1%
Gas	6,697	6,264	7%	27,375	25,959	5%
LPG	14,098	12,966	9%	54,324	49,020	11%
Solvent	6,921	4,484	54%	27,685	19,247	44%
Sulphur	176	117	50%	649	642	1%

Source: IGI Research and Company Financials

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Production Rise on the Back of Higher Output from Tal Block

Oil production increased +8%YoY in 4QFY16 on the back of higher production from Tal Block (Maramzai and Makori East) and Adhi. Gas production witnessed a rise of +7%YoY in 4QFY16 owing to higher output from Tal block (Maramzai and Makori East). As production from Mardankhel (Tal Block) has been delayed, we expect commencement of production from 1QFY17. Oil/gas production for FY16 is expected to augment by +1%YoY/+32%YoY.

Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Net Sales	6,703	6,477	3%	25,264	30,881	-18%
Operating Costs	2,257	2,158	5%	8,907	8,726	2%
Royalty	637	521	22%	2,116	2,610	-19%
Amortization of D&D Cost	536	746	-28%	2,523	3,027	-17%
Gross Profit	3,173	2,992	6%	11,418	16,267	-30%
Exploration Costs	1,005	1,625	-38%	2,278	4,729	-52%
Administration Expenses	67	20	236%	222	140	59%
Finance Cost	181	190	-5%	1,018	987	3%
Other Income	268	204	32%	1,613	1,563	3%
PBT	2,012	1,526	32%	8,917	11,489	-22%
PAT	1,610	1,092	47%	7,450	8,459	-12%
EPS (PKR)	6.81	4.62		31.50	35.76	
DPS (PKR)	17.00	25.00		32.00	40.00	

Source: IGI Research and Company Financials

Outlook

Discovery in Mardakhel is expected to come online from 1QFY17, which is anticipated to contribute additional 9%/19% to oil/gas production, respectively in FY17. Our oil price assumption is USD 45/50/bbl for FY17/FY18 with long term price of USD 50/bbl.

Recommendation

The scrip is currently trading at FY17E P/E multiple of 9.9x. With our Dec-16 TP of PKR 375/share from its last close of PKR 378/share, hence we maintain 'HOLD' call on the scrip.

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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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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