

Flash Note

Thursday, 26 July 2018



Oil & Gas Exploration Companies

POL: Discovery of Hydrocarbons in Exploratory Well Khaur North-01 (Khaur Block)

- According to notice issued on Pakistan Stock Exchange Limited (PSX) by Pakistan Oilfields Limited (POL), the Company (operator of Khaur Development & Production Lease) has discovered hydrocarbons from exploratory well Khaur North-01 (Khaur Block) to the tune of 502 bopd of oil and 1.40 mmcf of gas.
- POL as operator holds 100% stake in the block.
- Production from Khaur block will not be priced under Petroleum Policy 2012 (PP12) as the block has not been granted conversion under the Supplemental Agreement (SA).
- Based on our estimate, we expect annualized earnings impact of PKR 3.23/share based on oil price assumption of USD 70/bbl and exchange rate of PKR 129 against USD.
- However, management's disclosure highlighting that actual production flows may vary significantly while keeping in view variance in flows from recent discovery of Jhandial (which is in close proximity of Khaur North), we foresee greater probability of actual flows differing from the numbers reported at initial testing.

Recommendation

We recommend a 'HOLD' call on POL with our Dec-18 target price of PKR 687.1/share, offering +7% upside from last close. The Company is currently trading at FY19F P/E of 7.5x and offers a dividend yield of 9.8%.

Exhibit:

Annualized EPS impact of discovery of Hydrocarbons in Khaur North -01

Exploratory Well	Block	Oil (bopd)	Gas (mmcf)	Operator	Oil price(USD/bbl)	PKR/USD	Stake	EPS Impact
Khaur North-01	Khaur Block	502	1.40	POL	70	129	100%	3.23

Source: IGI Research, PSX

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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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