

# Day Break

Tuesday, 27 February 2018

## COMPANY UPDATE

**Pakistan Oilfields Limited**  
 Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>NEUTRAL</b>
Target Price:	618.0
Last Closing: 26-Feb-18	611.4
Upside:	1.1
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)	144.6   1,307.4
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	(11.3) 12.4 15.4
Lo	562.0 451.2 429.8
Hi	633.5 640.3 640.3

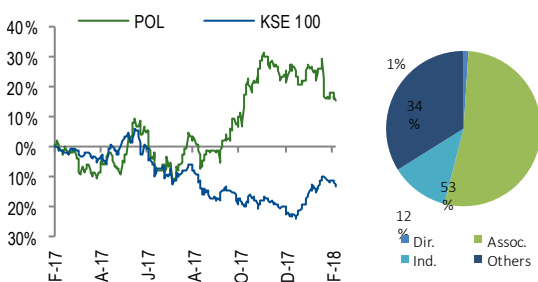
### Key Company Financials

Period End: Jun				
<b>PKRbn</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19F</b>	<b>FY20F</b>
Total Revenue	27.3	30.6	41.7	39.2
Net Income	9.7	10.2	15.5	14.5
EPS (PKR)	40.9	43.0	65.7	61.2
DPS (PKR)	40.0	40.0	60.0	55.0
Total Assets	57.7	64.3	76.6	76.0
Total Equity	31.5	32.2	33.5	35.0

### Key Financial Ratios

ROE (%)	30.7	31.6	46.3	41.3
P/E (x)	14.9	14.2	9.3	10.0
P/B (x)	4.6	4.5	4.3	4.1
DY (%)	6.5	6.5	9.8	9.0

### 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

Source: Bloomberg, PSX & IGI Research

### Abdullah Farhan

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

## Oil & Gas – Exploration Companies

### POL: Tal block and revision in Mardankhel to erode earnings; while limited impact of Jhandial; downgraded to 'HOLD' stance

- We have revised our investment case for Pakistan Oilfields Limited (POL) after incorporating recent reserves data as at Dec-17 and Tal block price reversion as reported by POL in 2QFY18.
- As a result our earnings estimate for FY18/19/20F have been revised downwards by 33%/6%/13% leading to downgrade in our Dec-18 target price by +10% to PKR 618/share (previous PKR 689/share).
- As witnessed by recent production data, flows from Jhandial have been on a decline since inception which follows the precedent of some major discoveries in recent times including Mardankhel, which has witnessed a revision of 65%/66% in oil/gas reserves.
- Our revised Dec-18 TP for POL of PKR 618/share offers +1% upside from last close thus changing our stance to 'HOLD'. The company is currently trading at a FY18E P/E of 14.2x and offers a dividend yield of 6.5%.

### Earnings revised downwards on reversal of Tal block incentive and revision in Mardankhel reserves

We have revised our investment case for Pakistan Oilfields Limited (POL) after incorporating recent reserves data as at Dec-17 and Tal block price reversion as reported by POL in 2QFY18. As a result our earnings estimate for FY18/19/20F have been revised downwards by 33%/6%/13% leading to downgrade in our Dec-18 target price by +10% to PKR 618/share (previous PKR 689/share).

### Jhandial reserves reported at 23.9mnbbbls/291bcf; over and above our initial estimates...

To recall, on 4<sup>th</sup> Oct-17 POL announced a substantial hydrocarbon discovery from its exploratory well Jhandial-1 in Ikhlas block which is operated by POL with a post-commercial working interest of 80%. This discovery will be priced under Petroleum Policy 2012 (PP12) which offers a +67% higher gas price compared to PP01. Jhandial oil/gas reserves are reported at 23.9mnbbbls/291bcf which translates in to a reserve life of 30.4/41.9yrs at production level of 2,160bopd/19mmcf. This has increased POL's average reserve life to 12.6yrs from previous 8.1yrs. At production level of 2,160bopd/19mmcf of gas, flows from Jhandial are expected to augment POL's EPS by 13%/21%/22% in FY18/19/20F and adding roughly about PKR 34/share to our target price, over and above our initial estimate of 7.4mnbbbls/80bcf of oil/gas reserves.

### ...assuming an average oil/gas production of 2,160bopd/19mmcf

We have assumed oil/gas production of 2,160bopd/19mmcf for Jhandial field as the flows reported by the Company during initial tests at time of discovery were expected in the range of 1,630-2,520bopd of oil and 16.5-19mmcf of gas. However, since production commencement in Oct-17, flows from the field have been on a decline. In the week ending 13<sup>th</sup> Feb-18, production flows stood at 978bopd/8mmcf of oil/gas.

**Imposition of windfall levy on oil and reversal of Tal block price incentive**

POL in its 2QFY18 result reported a reversal of price incentive realized since Jul-17 to Dec-17 of PKR 3.0bn (total Tal block incentive from Jul-15 to Dec-17 stood at PKR 6.4bn) and effectively reverted prices back to PPO1 price for Tal block. Reversal of retrospective amount for the period Jul-15 to Jun-17 (PKR 3.4bn) is estimated to drag down POL’s FY18 earnings and TP by 14% (PKR 7.05/share) and 1% (PKR 8.72/share), respectively. After reverting the price of Tal block to Petroleum Policy 1997 (PP97), we estimate POL’s earnings to come down by 12%/13%/13% in FY18/19/20F shredding PKR 62/share (10% of our current TP of PKR 618/share) from our target price.

**Mardankhel oil/gas reserves revised down by 65%/66% as at Dec-17**

Key highlights from recent data points available on PPIS shows substantial downward revision with Mardankhel’s oil/gas reserves down by 65%/66% to 5.4mnbbls/115.6bcf as at Dec-17. Based on flow rate of 3,200bopd/30mmcf of oil/gas production, we estimate oil/gas reserve life of Mardankhel to come down by 65%/66% to 4.6yrs/10.6yrs. Drop in Mardankhel oil/gas reserves is expected to erode PKR 4-8/share from company’s profitability in FY19 and onwards, while impacting our target price by PKR 30/share.

Exhibit:  
**Estimated oil reserves for POL up by nearly ~+2.2x after inclusion of Jhandial**

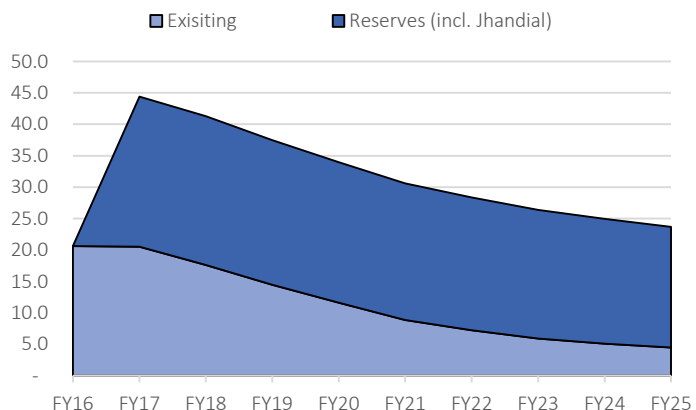
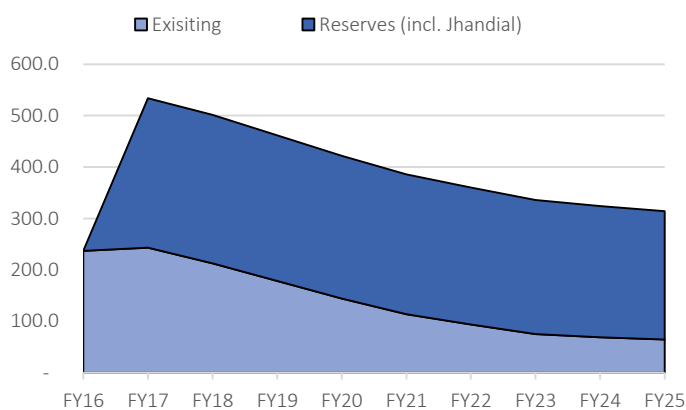


Exhibit:  
**Estimated Gas reserves for POL up by nearly ~+2.2x after inclusion of Jhandial**



Source: IGI Research, PPIS, Company Financial, PSX

**Limited impact of increase in reserve on earnings**

Although reserves data of POL is higher than our initial estimates, wherein we estimate a marginal increase in our target price, however, earning growth and substantial upside in target price remains sensitive to production flows from the well. That said, if production flows are enhanced from the well, for every 500bopd/4mmcf increase in oil/gas production we estimate POL’s earnings to increase by PKR 2.5-3.0/share during FY19-25 and provide PKR 29.6/share (5% of current target price) upside to our target price.

Exhibit:

**Earnings sensitivity at different production flows**

Field	Reserves (oil   gas)	Production (oil   gas)				Reserve Life (yrs)
		FY18E	FY19F	FY20F	FY21F	
Jhandial	23.9 mnbbbls   291 bcf	2160   19	2160   19	2160   19	2160   19	30.4   42
Mardankhel	5.4mnbbbls   115.6bcf	3200   30	4215   56	4215   56	3165   56	3.5   5.7
Earnings (PKR/Share)		43.0	65.7	61.2	56.5	8%
Jhandial	23.9 mnbbbls   291 bcf	2520   21	2520   21	2520   21	2520   21	26.1   38
Mardankhel	5.4mnbbbls   115.6bcf	3200   30	4215   56	4215   56	3165   56	3.5   5.7
Earnings (PKR/Share)		43.7	67.6	63.0	58.5	9%
Jhandial	23.9 mnbbbls   291 bcf	3000   25	3000   25	3000   25	3000   25	21.9   31.9
Mardankhel	5.4mnbbbls   115.6bcf	3200   30	4215   56	4215   56	3165   56	4.6   10.6
Earnings (PKR/Share)		44.9	70.6	66.0	61.5	11%
Jhandial	23.9 mnbbbls   291 bcf	1500   12	1500   12	1500   12	1500   12	43.8   66.4
Mardankhel	5.4mnbbbls   115.6bcf	3200   30	4215   56	4215   56	3165   56	3.5   5.7
Earnings (PKR/Share)		41.1	61.0	56.6	51.8	6%
Jhandial	23.9 mnbbbls   291 bcf	1000   8	1000   8	1000   8	1000   8	65.7   99.7
Mardankhel	5.4mnbbbls   115.6bcf	3200   30	4215   56	4215   56	4215   56	3.5   5.7
Earnings (PKR/Share)		39.9	57.9	53.7	48.8	4%

Source: Company Accounts, IGI Research

**Earnings to grow by +5%YoY in FY18 on the back of improved production...**

We expect POL's earnings to grow by +5%YoY in FY18 and post a 3Yr earnings CAGR of 14% over FY18-20F. This is on the back of a) stable oil prices with possible rise stemming from easing global oil supply and demand, b) oil and gas production to increase by +27%/+14%YoY in FY18 due to full year impact of Mardankhel, production commencement from Makori Deep and flows from Jhandial, and c) depreciation of PKR against USD.

**...however lower than expected flows from Jhandial brings the concern to the forefront**

As witnessed by recent production data, flows from Jhandial have been on a decline since inception which follows the precedent of some major discoveries in recent times including Mardankhel, which has witnessed a revision of 65%/66% in oil/gas reserves. This brings the concern to the forefront of higher probability that reserve data reported at initial testing may be overstated owing to issues such as waterlogging. However, production flows from Jhandial should remain impetus to earnings growth and provide TP value addition. For enhancing flows from Jhandial, we highlight further development/appraisal wells would need to be drilled if the reserve size stands to be as stated at 24mnbbbls/291bcf.

**Recommendation**

Our revised Dec-18 TP for POL of PKR 618/share offers +1% upside from last close thus changing our stance to 'HOLD'. The company is currently trading at a FY18E P/E of 14.2x and offers a dividend yield of 6.5%.

## Earnings and target price sensitivity to changes in oil price and exchange rate

Exhibit:

### EPS and Target Price Sensitivity to changes in Oil Price

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec18
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	52.0	50.0	45.0	39.3	60.8	56.2	583.3
Base	57.0	55.0	50.0	43.0	65.7	61.2	618.0
Bull 1	62.0	60.0	55.0	46.6	70.6	65.9	651.2
Bull 2	67.0	65.0	60.0	50.3	75.6	70.7	684.4
Bull 3	72.0	70.0	65.0	53.9	80.5	75.4	717.5

Source: IGI Research, Company Financials

Exhibit:

### EPS and Target Price Sensitivity to changes in exchange rate

Scenarios	PKR/USD	Change	EPS	Change	Target Price (PKR) - Dec-18	Change
	FY19	%	FY18	%		%
Bear	113.68	-2%	64.09	-2%	609.61	-1%
Base	115.86	0%	65.71	0%	617.98	0%
Bull 1	118.04	2%	67.32	2%	626.34	1%
Bull 2	120.22	4%	68.93	5%	634.71	3%
Bull 3	122.39	6%	70.55	7%	643.07	4%

Source: IGI Research

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views 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(s) 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.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** 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 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)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**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)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	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	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan 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](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, PSX 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

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Tel: (92-992) 408243 - 44

#### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Peshawar Cantt.  
Tel: (92-91) 5253035, 5278448

#### 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

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad  
Station, Mansehra Road, Abbottabad  
Tel: (+92-99) 2408243 - 44

#### Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,  
Mubarak Pura, Sialkot.  
Tel: (+92-52) 3258437, 3258762