

Day Break

Monday, 28 May 2018

COMPANY UPDATE

Pakistan Oilfields Limited

Oil & Gas Exploration Companies

Recommendation	NEUTRAL		
Target Price:	610		
Last Closing: 25-May-18	662		
Upside:	-8%		
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)	156.6	1,355.6	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	13.4	8.6	28.2
Lo	594.7	551.8	429.8
Hi	707.3	707.3	707.3

Key Company Financials

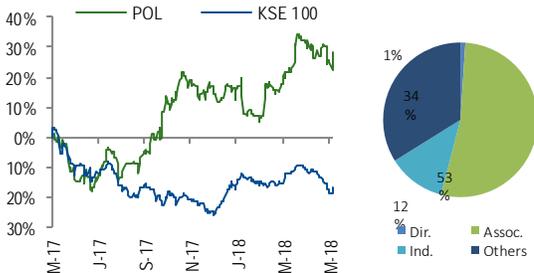
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	27.3	31.4	42.5	39.8
Net Income	9.7	11.0	16.5	15.2
EPS (PKR)	40.9	46.7	69.9	64.3
DPS (PKR)	40.0	45.0	62.5	57.5
Total Assets	57.7	62.7	75.3	74.7
Total Equity	31.5	31.9	33.7	35.3

Key Financial Ratios

ROE (%)	30.7	34.6	49.2	43.1
P/E (x)	16.2	14.2	9.5	10.3
P/B (x)	11.6	5.0	4.9	4.7
DY (%)	6.0	6.8	9.4	8.7

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

Abdullah Farhan

Research Analyst

Abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas Exploration Companies

POL: Higher oil prices and expectation of new discoveries mask over production concerns; maintain 'HOLD'

- We have revised upwards our earnings for Pakistan Oilfields Limited (POL) by +6.0%/+3.9% for FY19/20F on the back of increased oil price assumption to USD 65/60/55 for FY19/20/21F while keeping long term price assumption at USD 50/bbl. However, despite increase of +13.1%/+13.5%/+7.5% in FY19/20/21F due to hike in oil price forecast, our overall earnings estimates have been revised up by only +6.0%/+3.9% for FY19/20F while slightly shredding out earnings forecast by 1.4% for FY21.
- However, our target price is revised downwards by 2% to PKR 610/share after incorporating net impact on increased oil price and lower production along with 50bps increase in policy rate.,
- We still maintain a 'HOLD' call on POL with our revised Dec-18 target price of PKR 610/share offering 8% downside from last close. The Company is currently trading at FY18E/19F P/E of 14.2x/9.5x and offers the highest dividend yield of 6.8% among its peers.

Oil price assumption revised upward to USD 65, 60 and 55/bbl for FY19, FY20 and FY21

Oil prices have witnessed a hike of nearly ~56% to USD 71.57/ bbl in FY18TD, a level last observed in Dec-14, on the back of a) increased geo-political tensions, b) deeper production cuts by Saudi Arabia ahead of Aramco IPO and persistent compliance by OPEC members, c) decline in production by Venezuela and, d) imposition of sanctions on Iran by US. However, after recent comments by world's largest and 3rd largest oil producer Russia and Saudi Arabia (increase their output by 1mn bopd cumulatively to compensate for decline in production from Venezuela and likely curb in exports from Iran post imposition of sanctions and hinting towards an early exit from agreement between OPEC and Non-OPEC members), oil prices have fallen by nearly 3% since 22nd May-18. Based on this change in supply and demand dynamics of oil, we have increased our oil price assumption to USD 65/60/55 per bbl for FY19/20/21F while keeping our long term price intact at USD50/bbl. This alone has led to earnings accretion of +13.1%/+13.5%/+7.5% in FY19/20/21F.

Earnings revised to reflect higher oil prices and lower production flows; 'HOLD' call intact

We have revised upwards our earnings for Pakistan Oilfields Limited (POL) by +6.0%/+3.9% for FY19/20F on the back of increased oil price assumption to USD 65/60/55 for FY19/20/21F while keeping long term price assumption at USD 50/bbl. However, despite increase of +13.1%/+13.5%/+7.5% in FY19/20/21F due to hike in oil price forecast, our overall earnings estimates have been revised up by only +6.0%/+3.9% for FY19/20F while slightly shredding out earnings forecast by 1.4% for FY21 on account of a) lower than expected flows from Jhandial which is currently averaging 883bopd till May-18 post production commencement and, b) drop in production from Tal block and other fields amid abrupt closure of FO based power plants in Oct-17. However, our target price is revised downwards by 2% to PKR 610/share after incorporating net impact on increased oil price and lower production along with 50bps increase in policy rate.

Exhibit:

Key Financial Highlights

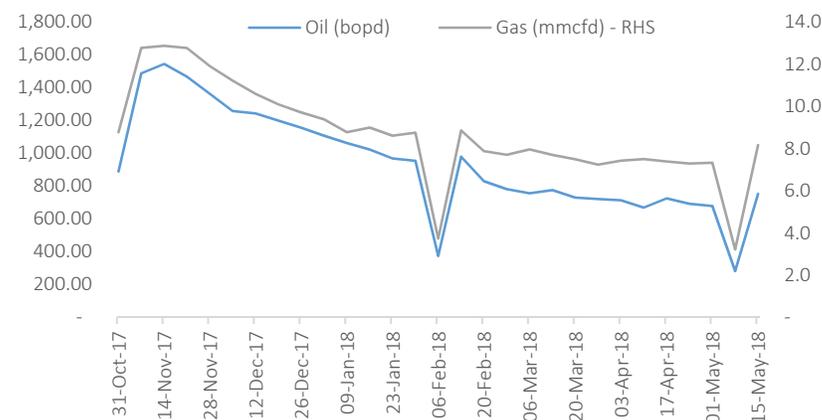
		FY16A	FY17A	FY18F	FY19F	FY20F	FY21F	FY22F
Oil price	USD/bbl	40.66	48.41	60.00	65.00	60.00	55.00	50.00
PKR/USD		104.30	104.82	108.90	115.91	120.52	124.14	127.86
EPS	PKR	30.58	40.92	46.69	69.94	64.31	56.47	37.15
DPS	PKR	35.00	40.00	45.00	62.50	57.50	50.00	32.50

Source: IGI Research

Flows from Jhandial continues to remain below par since inception

As witnessed by production data published by Pakistan Petroleum Information Services (PPIS), flows from Jhandial have been on a decline since inception following the precedent of some major discoveries in recent times including Mardankhel, which has witnessed a revision of 65%/66% in oil/gas reserves. Average oil and gas production from Jhandial till 15th May-18 since commencement of production in Oct-17 stands at 883bopd and 8.2mmcf/d respectively, as against range of 1,630-2,520bopd for oil and 16.5-21mmcf/d for gas reported by the management at initial testing. For enhancing flows from Jhandial, we highlight further development/appraisal wells would need to be drilled to sustain or improve production from the field. As a result, we have revised down our production estimates for Jhandial to 1,100 bopd for oil and 10 mmcf/d for gas as against our previous forecast of 2,160bopd for oil and 19 mmcf/d for gas. Based on this, we expect downward revision in production forecast from Jhandial alone will lead to earnings attrition of 9.2%/10.3%/10.8% in FY18E/19/20F.

Exhibit:

Oil & gas production from Jhandial since commencement

Source: IGI Research, PPIS, Company Financial, PSX

Flows from Tal block and other fields dropped as FO based plants were closed down

Oil production from Tal block has declined by 20% in 10MFY18 to 17,372bopd while gas production has increased by +10% to 324mmcf/d respectively, due to commencement of production from Makori Deep, Tolanj and Tolanj West cumulatively adding 1,628bopd and 17mmcf/d in 10MFY18. Decline in oil production is primarily led by closure of FO based power plants in Oct-17 as new LNG and Coal based power plants commenced operations. As a result we have revised down our production estimate for Tal block, Pariwali, Pindori and Ratana by on average 5%-10% for FY18 onwards.

Further upside to emanate from exclusion of windfall levy on supplemental agreement granted to concession...

To recall, POL in its 2QFY18 financial result reverted price incentive offered to Tal block under Supplemental Agreement (SA) granted by GoP post imposition of windfall levy on 27th Dec-17 on oil for converted blocks under SA. As a result of this, we estimate POL to witness earnings attrition of 12%-13% on recurring basis and PKR 7.05/share for the retrospective amount of the incentive booked since Jul-15 to Dec-17. The Petition filed in Islamabad High Court (IHC) against the imposition of windfall levy resulted in stay order by the court and next hearing was scheduled on 24th May-18. Until a decision is reached, according to the court order, as POL had already reverted the incentive back to old pricing under Petroleum Policy 1997 (PP97), POL will continue to record its revenue from Tal block under PP97 price. Thus if court’s ruling terms in favor of the Company and incentive is allowed under PP12 without imposition of windfall levy applied retrospectively, we estimate POL to witness earnings accretion of 12-14% on recurring basis with a PKR 60-70/share (or +10%) value addition to our Dec-18 target price of PKR 610/share.

...and new discoveries expected from current drilling in Tal block, Joya Mair and Khaur North

Recent drilling report published by PPIS shows that currently there are 2 new exploratory wells under drilling by MOL in Tal block namely Tolanj East-01 and Mamikhel Deep-01 while Joya Mair Deep-01 and Kahur North-01 which is operated by POL is also under drilling. Tolanj East-01 is currently under testing phase and has reached a depth of 4,982M (meters) against target of 5,557M, whereas Mamikhel Deep-01 is still under drilling with a depth of 3,996M completed against target of 5,229M. However, Joya Mair Deep-01 has almost reached its target depth of 2,713M and is currently under process which was spudded back in Oct-17.

Consequently, if there is a discovery announced from either Joya Mair or Khaur North to the extent of 2,000bopd cumulatively we estimate this to have an annualized earnings impact of PKR 10.8/share at oil price of USD 65/bbl. A 600bopd discovery from Tal block would have an EPS impact of PKR 0.7/share due to only 21.05% working interest in the concession. However, gas discoveries from any new discovery would not have significant impact as price incentive on new discovery under PP12 has been forgone by the company post imposition of windfall levy and until a decision is announced by the IHC, the old pricing regime of PP97 for Tal block and PP01 for Ikhlas block will prevail which offer nearly 60-70% lower wellhead gas price.

Exhibit:
Current and Target depth of fields under drilling



Exhibit:
Current Drilling activity

Field	Block	Stake	Status
Joya Mair Deep-01	Joya Mair	100.0%	Testing
Khaur North-01	Khaur	100.0%	POOH in progress
Tolanj East-01	Tal Block	21.1%	Testing
Mami Khel Deep-01	Tal Block	21.1%	Drilling in progress

Source: IGI Research, PPIS

9MFY18 result review

POL reported financial results for 3QFY18 with earnings clocking in at PKR 3.11bn (EPS PKR 13.13) as compared to PKR 2.81bn (EPS PKR 11.88) in the same period last year, up +11%YoY. We attribute this to a) exchange gains of PKR 391mn owing to 5% PKR depreciation in Mar-18, b) 24%YoY rise in oil prices and, c) lower effective tax rate of 17% compared to 24% in the same period last year. However, earnings growth was limited due to a) +2.1xYoY rise in royalty expense to PKR 1.36bn compared to PKR 0.67bn in the same period last year, b) +48%YoY increase in amortization of D&D cost in the absence of revision in estimates of decommissioning cost last year and, c) +2.8xYoY incline in finance cost to PKR 0.54bn owing to exchange loss of PKR 393mn. This brings 9MFY18 earnings to PKR 7.87bn (EPS PKR 33.26) up by +5%YoY compared to PKR 7.47bn (EPS PKR 31.56) in the same period last year. Total cash dividend for 9MFY18 stands at PKR 17.5/share.

Target price slightly revised to PKR 610/share offering 8% downside; 'HOLD' call maintained

We still maintain a 'HOLD' call on POL with our revised Dec-18 target price of PKR 610/share offering 8% downside from last close. The Company is currently trading at FY18E/19F P/E of 14.2x/9.5x and offers the highest dividend yield of 6.8% among its peers.

Exhibit:

POL EPS sensitivity to changes in oil price

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec'18
	FY19	FY20	FY21	FY19	FY20	FY21	
Bear 1	55.0	50.0	45.0	60.7	55.5	47.7	558.5
Bear 2	60.0	55.0	50.0	65.3	59.9	52.2	584.4
Base	65.0	60.0	55.0	69.9	64.3	56.5	610.0
Bull 1	70.0	65.0	60.0	74.6	68.7	60.8	635.1
Bull 2	75.0	70.0	65.0	79.1	73.1	65.1	659.9

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, and 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, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. 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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 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
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
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@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	mahtab.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

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
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
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
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
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

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

Sialkot Office

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

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited