

# Day Break

Monday, 20 January 2020

## COMPANY UPDATE

### Pakistan Oilfields Limited

Oil & Gas Exploration Companies

<b>Recommendation</b>	BUY		
Target Price:	Dec/20	518.7	
Last Closing:	17-Jan-20	457.9	
Upside:		13.3	
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:		11M	

#### Market Data

Bloomberg Tkr.	POL PA		
Shares (mn)	283.9		
Free Float Shares (mn)	130.1		
Free Float Shares (%)	45.8%		
Market Cap (PKRbn   USDmn)	130.0	839.6	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	20.2	18.7	(4.1)
Lo	368.5	348.7	348.7
Hi	473.4	473.4	482.1

#### Key Company Financials

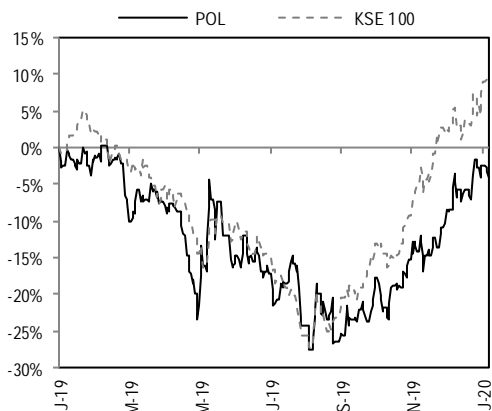
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	44.0	48.7	48.1	42.9
Net Income	16.9	18.4	18.5	16.1
EPS (PKR)	59.4	64.7	65.3	56.9
DPS (PKR)	50.0	52.5	55.0	54.0
Total Assets	81.5	85.1	86.8	84.2
Total Equity	38.1	41.5	44.5	45.3

#### Key Financial Ratios

ROE (%)	35.4	47.6	46.1	43.1
P/E (x)	7.7	7.1	7.0	8.1
P/B (x)	4.0	3.4	3.1	2.9
DY (%)	10.9	11.5	12.0	11.8

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Oil & Gas Exploration Companies

### POL: Despite lower oil prices, weaker PKR to lift 2QFY20 EPS to 14.88 up by +5%YoY: DPS PKR 21

- Pakistan Oilfields Limited's (POL) board meeting is scheduled on 21<sup>st</sup> Jan-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 4.23bn (EPS PKR 14.88), up by +5%YoY,
- We estimate incline in earnings on the back a) 16%YoY PKR depreciation despite 5%YoY drop in oil prices and lower oil/gas/LPG production and, b) lower effective tax rate. Exploration cost is estimated to remain on higher side owing to higher seismic data acquisition,
- On quarterly basis, earnings are expected to increase by +5%QoQ on the back of +2%/+2%/+6%QoQ rise in oil/gas/LPG production, higher other income in the absence of exchange losses (nearly PKR 200mn in 1QFY20 on net basis) and 2%QoQ rise in oil prices,
- We recommend a 'BUY' stance on POL with our Dec-20 target price of PKR 518.64/share offering 13% upside from last close. The company is currently trading at FY20 P/E of 7.1x and offers a dividend of 11.5%.

#### Earnings to clock in at PKR 14.88/share for 2QFY20, up by +5%YoY

Pakistan Oilfields Limited's (POL) board meeting is scheduled on 21<sup>st</sup> Jan-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 4.23bn (EPS PKR 14.88), up by +5%YoY, compared to PKR 4.02bn (EPS PKR 14.17) in the same period last year. We estimate incline in earnings on the back a) 16%YoY PKR depreciation despite 5%YoY drop in oil prices and lower oil/gas/LPG production and, b) lower effective tax rate. To note, POL did not incur any dry well cost during the quarter, however, exploration cost is estimated to remain on higher side owing to higher seismic data acquisition (Ikhlas-POL operated and Tal-operated by MOL). This brings total profitability for 1HFY20E to PKR 8.23bn (EPS PKR 29.0) compared to PKR 7.90 (EPS PKR 27.79) in the same period last year. POL is foreseen to announce cash dividend of PKR 21/share along with the result.

On quarterly basis, earnings are expected to increase by +5%QoQ on the back of +2%/+2%/+6%QoQ rise in oil/gas/LPG production, higher other income in the absence of exchange losses (nearly PKR 200mn in 1QFY20 on net basis) and 2%QoQ rise in oil prices. Exploration cost are expected to rise by +16%QoQ amid higher data acquisition.

Exhibit:

#### POL Financial Highlights

PKRmn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Net Sales	10,781	11,639	-7%	21,033	22,209	-5%
Operating Costs	2,229	2,726	-18%	4,480	5,504	-19%
Royalty	1,182	1,160	2%	2,300	2,245	2%
Amortization of D&D Cost	812	1,029	-21%	1,325	1,803	-26%
Gross Profit	6,470	6,646	-3%	12,765	12,502	2%
Exploration Costs	436	79	453%	812	810	0%
Finance Cost	466	1,347	-65%	605	1,749	-65%
Other Income	843	2,286	-63%	1,310	3,127	-58%
PBT	5,950	6,962	-15%	11,743	12,096	-3%
PAT	4,225	4,022	5%	8,233	7,889	4%
EPS (PKR)	14.88	14.17		29.00	27.79	
DPS (PKR)	21.00	20.00		21.00	20.00	

Source: IGI Research and Company Financials

No of Shares: 283.86mn

#### Recommendation

We recommend a 'BUY' stance on POL with our Dec-20 target price of PKR 518.64/share offering 13% upside from last close. The company is currently trading at FY20 P/E of 7.1x and offers a dividend of 11.5%.

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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)
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**Time Horizon:** Dec – 2019

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

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