

Flash Note

Monday, 17 April 2017

Oil & Gas – Exploration Companies

POL: Earnings reported at PKR 11.88/share in 3QFY17, up by +30%YoY

- Pakistan Oilfields Limited (POL) announced financial results for 3QFY17 with earnings clocking in at PKR 2.81bn (EPS PKR 11.88) up by +30%YoY as compared to PKR 2.17bn (EPS PKR 9.17) in the same period last year.
- Cumulative earnings for 9MFY17 stand at PKR 7.47bn (EPS PKR 31.56) as compared to PKR 5.84bn (EPS PKR 24.69) in the corresponding period last year.
- Revenues for 3QFY17 increased by +20%YoY to PKR 7.6bn as compared to PKR 6.3bn in the same period last year, likely on the back of +79%YoY rise in oil price and commencement of production from Mardankhel.
- Exploration cost increased by +3.2xYoY to PKR 246mn mainly on the back of increased exploration in Ikhlas block.
- Other income augmented by +20%YoY to PKR 312mn in 3QFY17 as compared to PKR 254mn in the same period last year.
- However, effective tax rate increased by +330bps to 24% in 3QFY17 as compared to 20% in the same period last year.
- Royalty expense increased by +33%YoY to PKR 669mn (8.79% of sales) in 3QFY17 as compared to PKR 502mn (7.94% of sales) in the corresponding period last year.

Recommendation

We maintain our “BUY” call on POL with our Dec-17 target price of PKR 544/share, offering +18.5% upside from its last closing. The company is currently trading at a FY17E P/E of 10.8x and offers a dividend yield of 9%.

Exhibit:

Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Net Sales	7,611	6,318	20%	20,416	18,561	10%
Operating Costs	2,245	2,183	3%	6,362	6,651	-4%
Royalty	669	502	33%	1,742	1,479	18%
Amortization of D&D Cost	543	580	-6%	1,969	1,987	-1%
Gross Profit	4,084	2,988	37%	10,142	8,245	23%
Exploration Costs	246	76	222%	437	1,273	-66%
Finance Cost	195	193	1%	585	837	-30%
Other Income	312	254	23%	1,260	1,345	-6%
PBT	3,681	2,724	35%	9,653	6,904	40%
PAT	2,810	2,169	30%	7,466	5,840	28%
EPS (PKR)	11.88	9.17		31.56	24.69	
DPS (PKR)	-	-		15.00	15.00	

Source: IGI Research and Company Financials

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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)
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 - 2017

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.

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