

Flash Note

Wednesday, 24 January 2018

Oil & Gas – Exploration Companies

POL: Reversal of gas revenue upon imposition of windfall levy on oil/condensate lead to 5%YoY decline in earnings

- Pakistan Oilfields Limited (POL) announced financial results for 2QFY18 with earnings clocking in at PKR 2.22bn (EPS PKR 9.42) down by 5%YoY as compared to PKR 2.34bn (EPS PKR 9.88) in the same period last year likely on the back of a) +5%YoY higher gas production from Mari field, b) +17%YoY rise in oil prices and c) 48%YoY decline in exploration cost.
- Revenues declined by 15%YoY to PKR 6.00bn during 2QFY18 on the back of reversal of gas revenue of PKR 3.01bn in respect of Tal block due to enhanced gas price incentive offered by GoP under Supplemental Agreement for conversion of Tal block to Petroleum Policy 2012 (PP12) for the period Jul-15 to Dec-17. The amount of PKR 3.01bn includes PKR 2.23bn from Jul-15 to Jun-17 and PKR 0.79bn from Jul-17 to Dec-17.
- To note, decision by POL to reverse additional revenue realized during the aforementioned period relating to Tal block is in consequence to Ministry of Finance (MoF) to impose Windfall Levy of oil/condensate through amendment in PP12 which will be applicable retrospectively.
- The company, based on legal advice, intends to challenge the decision in the court of law and until the resolution of the matter the company has prudently decided to reverse incremental revenue and not booked retrospective amount to the tune of PKR 6.40bn resulting from conversion of Tal block to PP12. To highlight, the retrospective amount till Jun-15 was stated at PKR 3.39bn while incremental revenues post Jul-15 amount to PKR 3.01bn.
- Other income increased by +5.7xYoY to PKR 1.32bn during 2QFY18 owing to full year dividend income of FY17 booked during the quarter from its subsidiaries.
- Effective tax rate stood at 11.7% during 2QFY18 as compared to 25.6% in the same period last year.

Exhibit:

Financial Highlights

PKRmn	2QFY18	2QFY17	YoY	1HFY18	1HFY17	YoY
Net Sales	6,000	7,081	-15%	13,240	12,805	3%
Operating Costs	2,155	2,093	3%	4,129	4,117	0%
Royalty	428	576	-26%	1,091	1,074	2%
Amortization of D&D Cost	978	865	13%	1,490	1,426	5%
Gross Profit	2,361	3,479	-32%	6,384	6,058	5%
Exploration Costs	468	126	272%	740	190	289%
Finance Cost	487	195	150%	675	390	73%
Other Income	1,316	231	469%	1,565	948	65%
PBT	2,522	3,145	-20%	6,050	5,972	1%
PAT	2,227	2,338	-5%	4,761	4,656	2%
EPS (PKR)	9.42	9.88		20.13	19.68	
DPS (PKR)	17.50	15.00		17.50	15.00	

Source: IGI Research and Company Financials

No of Shares: 236.55mn

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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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