

Flash Note

Monday, 11 September 2017

Oil & Gas – Exploration Companies

POL: Earnings reported at PKR 40.92/share in FY17, up by +34%YoY

- Pakistan Oilfields Limited (POL) announced financial results for FY17 with earnings clocking in at PKR 9.68bn (EPS PKR 40.92) up by +34%YoY as compared to PKR 7.23bn (EPS PKR 30.58) last year.
- For 4QFY17, the company reported earnings of PKR 2.21bn (EPS PKR 9.35) up by +59%YoY compared to PKR 1.39bn (EPS PKR 5.89) in the same period last year likely on the back of a) +16%YoY rise in oil prices, b) +9%/+11%YoY rise in oil/gas production and, c) lower effective tax rate of 19.8% compared to 29.5% in the same period last year.
- The company announced cash dividend of PKR 25/share along with the result, taking FY17 cumulative dividend to PKR 40/share.
- Revenues for 4QFY17 increased by +9%YoY to PKR 6.87bn as compared to PKR 6.29bn in the same period last year, likely on the back of a) +16%YoY increase in oil prices and, b) 9%/+11%YoY rise in oil/gas production
- Operating cost declined by 9%YoY to PKR 2.02bn during 4QFY17 as compared to PKR 2.22bn recorded in the corresponding period last year.
- Exploration cost increased by +32%YoY to PKR 1.03bn during 4QFY17, likely owing to dry well cost incurred
- Effective tax rate stood at 19.8% in 4QFY17 as compared to a 29.5% last year. However, during FY17 growth in earnings was diluted by increase in effective tax by 3.5ppts to stand at 22.0%.

Recommendation

We maintain our “BUY” call on POL with our Dec-17 target price of PKR 551/share, offering +15% upside from its last closing. The company is currently trading at a FY18E P/E of 9.6x and a healthy dividend yield of 9.8%.

Exhibit:

Financial Highlights

PKRmn	4QFY17	4QFY16	YoY	FY17	FY16	YoY
Net Sales	6,865	6,287	9%	27,280	24,848	10%
Operating Costs	2,021	2,221	-9%	8,384	8,872	-6%
Royalty	602	541	11%	2,344	2,021	16%
Amortization of D&D Cost	240	461	-48%	2,209	2,448	-10%
Gross Profit	3,930	2,997	31%	14,072	11,243	25%
Exploration Costs	1,032	780	32%	1,468	2,052	-28%
Finance Cost	162	185	-13%	746	1,022	-27%
Other Income	213	66	221%	1,473	1,411	4%
PBT	2,760	1,976	40%	12,412	8,880	40%
PAT	2,213	1,394	59%	9,679	7,234	34%
EPS (PKR)	9.35	5.89		40.92	30.58	
DPS (PKR)	25.00	20.00		40.00	35.00	

Source: IGI Research and Company Financials

No of Shares: 236.55mn

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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 – 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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