

Pakistan Oilfields Limited
Result Preview

PSX: POL Bloomberg: POL:PA Reuters: PKOL: KA

Pakistan Research

1QFY23 earnings to remain elevated owing to higher oil price and PKR devaluation

- POL's board meeting is scheduled on October 25, 2022, to consider 1QFY23 financial results, where we expect the company to post an EPS of PKR 31.7, up 72% YoY. This increase in earnings mainly emanates from 43% YoY higher crude oil prices (averaging at USD 105/bbl) and 27% YoY PKR devaluation (PKR 225/USD).
- The company's net sales are likely to increase by 57% YoY and settle at PKR 17.3bn during 1Q. Despite higher oil prices (up 95% YoY in PKR terms), revenue growth is likely to be restricted owing to production decline. POL's oil/gas production is expected to contract by 7%/9% YoY owing to lower flows from Adhi, Jhandial fields and TAL block.
- Other income is likely to increase by 12% YoY to PKR 3.0bn due to exchange gains during the period and comparatively higher return on cash deposits.
- On sequential basis, POL is expected to post earnings growth of 7% QoQ, likely to be driven by 6% QoQ increase in crude oil prices (in PKR terms) and 3% QoQ increase in hydrocarbon production.
- We have a 'BUY' stance on POL. Our June-23 price target (PT) of PKR 535/share provides an upside of 43% along with a dividend yield of 20.1%.

Key Data

PSX Ticker	POL
Target Price (PKR)	535
Current Price (PKR)	374
Upside/(Downside) (%)	+ 43%
Dividend Yield (%)	20.1%
Total Return (%)	+ 63%
12-month High (PKR)	431
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	106,059
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Sales net	11,077	17,338	57%
Field Expenditures	2,014	1,983	-2%
Royalties	1,173	2,145	83%
Gross Profit	7,116	12,380	74%
Other income	2,700	3,031	12%
Other operating expenses	416	437	5%
Finance costs	1,462	1,562	7%
Profit before Tax	7,421	12,702	71%
Taxation	2,163	3,683	70%
Net income (loss)	5,258	9,018	72%
EPS	18.52	31.77	72%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	57.7	47.1	91.4	95.8	88.0	75.5
EPS Growth	-2.9%	-18.3%	93.8%	4.8%	-8.2%	-14.2%
DPS	50.0	50.0	70.0	75.0	70.0	64.0
PER	7.3	9.1	4.4	4.2	4.6	5.5
Dividend Yield	13.4%	13.4%	18.7%	20.1%	18.7%	17.1%
EV/EBITDA	3.0	2.6	1.1	0.7	0.5	0.3
P/B	2.6	2.7	2.1	1.9	1.7	1.6
ROE	37.3%	29.2%	53.5%	46.3%	38.4%	30.4%

Source: Company Financials, Akseer Research

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Valuation Basis

Our PT for Pakistan Oilfields Limited (POL) has been computed using the reserve-based Free cash flow to equity (FCFE) method. We have used a risk-free rate of 13% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on POL. Our Jun-23 price target (PT) of PKR 535/share provides an upside of 44% along with a dividend yield of 20%. Our investment case on POL is based on (1) higher oil prices, (2) currency devaluation (3) incremental production from discoveries.

Risks

Key downside risks to our investment thesis are 1) decrease in oil prices 2) lower than expected reserve life of Jhandial discovery and 3) lower than estimated currency devaluation.

Company Description

Pakistan Oilfields Limited engages in the exploration, drilling, development, and production of crude oil and gas in Pakistan. The company operates nine development and production leases. It also produces liquefied petroleum gas (LPG), solvent oil, and sulphur. In addition, it is involved in the marketing of LPG under the POLGAS brand; and the operation of a network of pipelines for the transportation of crude oil. The company was incorporated in 1950 and is headquartered in Rawalpindi, Pakistan. Pakistan Oilfields Limited is a subsidiary of The Attock Oil Company Limited.

Financial Highlights - POL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	36,540	36,042	51,945	57,412	55,702	50,307
Field Expenditures	13,537	12,929	15,242	14,943	15,702	16,502
Royalties	4,010	3,908	5,563	7,093	6,242	5,244
Gross Profit	22,368	21,633	33,947	38,429	36,890	31,789
Operating Profit	20,771	20,944	32,865	37,547	35,861	30,594
Other income	4,558	1,539	11,697	6,062	3,173	3,046
Other charges	1,383	1,545	2,026	2,103	1,927	1,639
Finance cost	2,212	260	5,549	3,125	1,934	2,091
Profit before tax	21,734	20,678	36,987	38,382	35,173	29,911
Taxation	5,359	7,296	11,052	11,193	10,208	8,488
Profit after tax	16,376	13,382	25,935	27,189	24,965	21,422

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	7,057	6,129	6,220	5,954	5,744	5,583
Other LT assets	25,264	24,389	23,357	21,578	20,660	20,141
Non-Current Assets	32,320	30,518	29,577	27,532	26,404	25,724
Current assets	59,276	63,826	88,477	101,908	108,225	115,101
Total Assets	91,596	94,344	118,054	129,440	134,628	140,824
Non-Current liabilities	20,888	20,852	25,866	30,538	29,789	31,858
Current liabilities	30,441	34,130	41,125	41,938	42,781	43,653
Total Liabilities	51,329	54,982	66,990	72,477	72,570	75,510
Equity	40,267	39,362	51,063	56,963	62,058	65,314
Total Equity & liabilities	91,596	94,344	118,054	129,440	134,628	140,824

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	16,376	13,382	25,935	27,189	24,965	21,422
Non-cash Charges	5,503	4,803	6,057	5,854	4,839	4,348
Operating Cash flows	17,372	25,698	31,107	31,418	30,206	27,114
FCFF	11,080	23,002	30,718	31,941	25,389	25,140
Net borrowings	-	-	-	-	-	-
FCFE	11,080	23,002	30,718	31,941	25,389	25,140
Net change in cash	919	10,892	20,150	12,201	6,962	8,240
Closing cash	36,681	47,572	67,723	79,924	86,886	95,126

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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