

Pakistan Oilfields Limited
Result Preview

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

Pakistan Research

2QFY22 EPS expected at PKR 18.3, up 72% YoY, DPS PKR 20.0

- POL's board meeting is scheduled on February 4, 2022, to consider 2QFY22 financial results, where we expect the company to post an EPS of PKR 18.3, up 72% YoY. The increase in earnings can mainly be attributed to 83% YoY higher international crude oil prices (averaging at USD 80/bbl) and 7.6% YoY PKR devaluation (averaging at PKR 174/USD). This will take 1HFY22 earnings to PKR 36.8/share, up 57% YoY. Along with the result, we expect the company to announce an interim cash dividend of PKR 20/share.
- Net sales are likely to clock in at PKR 11.1bn, up 26% YoY. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 11% and 9% YoY decline in POL's oil and gas production, respectively. Major decline is expected from TAL block and Adhi field.
- Other income is likely to see an increase of 7.7x YoY to PKR 2.1bn owing to exchange gains on financial assets booked during the quarter.
- On a sequential basis, POL is expected to post earnings decline of 1% QoQ, which is likely to be driven by lower oil & gas production of 4% and 3%, respectively. Furthermore, lower other income would also keep earnings in check.
- We have a 'BUY' stance on POL. Our Dec-22 price target (PT) of PKR 530/share provides an upside of 33% along with a dividend yield of 12.5%.

Key Data

PSX Ticker	POL
Target Price (PKR)	530
Current Price (PKR)	398
Upside/(Downside) (%)	+ 33%
Dividend Yield (%)	12.5%
Total Return (%)	+ 46%
12-month High (PKR)	435
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	113,115
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Sales net	8,843	11,120	26%	18,132	22,262	23%
Field Expenditures	1,795	1,860	4%	3,802	3,505	-8%
Royalties	934	1,165	25%	1,932	2,339	21%
Gross Profit	5,011	6,886	37%	10,316	14,002	36%
Other income	242	2,114	773%	545	4,814	784%
Other operating expenses	392	502	28%	747	918	23%
Finance costs	(188)	1,047	NM	(102)	2,509	NM
Profit before Tax	4,955	7,312	48%	9,990	14,733	47%
Taxation	1,935	2,121	10%	3,341	4,284	28%
Net income (loss)	3,021	5,192	72%	6,649	10,449	57%
EPS	10.64	18.29	72%	23.42	36.81	57%
DPS	20.00	20.00		20.00	20.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	59.43	57.69	47.14	65.78	62.63	55.52
EPS Growth	23%	-3%	-18%	40%	-5%	-11%
DPS	50.00	50.00	50.00	50.00	49.00	44.00
PER	6.70	7.03	8.63	6.06	6.36	7.18
Dividend Yield	12.5%	12.5%	12.5%	12.5%	12.3%	11.0%
EV/EBITDA	2.76	3.14	2.69	2.20	2.01	2.02
P/B	2.97	2.81	2.87	2.58	2.37	2.22
ROE	47.6%	41.1%	32.9%	44.9%	38.8%	31.9%

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 12% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on POL. Our Dec-22 price target (PT) of PKR 530/share provides an upside of 3% along with a dividend yield of 12.5%. 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	43,977	36,540	36,042	42,288	43,451	39,691
Field Expenditures	16,244	12,038	11,469	12,291	13,098	12,886
Royalties	4,554	4,010	3,908	4,422	4,461	3,899
Gross Profit	25,410	22,368	21,633	26,452	26,846	23,990
Operating Profit	23,180	20,771	20,944	25,575	25,892	22,906
Other income	7,177	4,558	1,539	7,048	2,222	1,960
Other charges	1,729	1,383	1,545	1,977	1,826	1,615
Finance cost	3,774	2,212	260	4,187	1,851	1,642
Profit before tax	24,854	21,734	20,678	26,459	24,437	21,609
Taxation	7,983	5,359	7,296	7,786	6,659	5,848
Profit after tax	16,871	16,376	13,382	18,673	17,778	15,761

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	7,747	7,057	6,129	5,255	4,541	3,955
Other LT assets	22,313	25,264	24,389	23,038	22,134	21,922
Non-Current Assets	30,060	32,320	30,518	28,293	26,675	25,877
Current assets	51,429	59,276	63,826	72,095	79,076	84,761
Total Assets	81,490	91,596	94,344	100,388	105,751	110,638
Non-Current liabilities	17,902	20,888	20,852	21,737	22,529	23,417
Current liabilities	25,517	30,441	34,130	34,809	35,511	36,238
Total Liabilities	43,419	51,329	54,982	56,546	58,039	59,655
Equity	38,071	40,267	39,362	43,842	47,712	50,983
Total Equity & liabilities	81,490	91,596	94,344	100,388	105,751	110,638

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	16,871	16,376	13,382	18,673	17,778	15,761
Non-cash Charges	5,611	5,427	4,834	5,069	4,512	3,706
Operating Cash flows	22,646	17,295	25,730	14,705	21,286	21,101
FCFF	24,286	11,080	23,002	12,419	18,842	18,723
Net borrowings	-	-	-	-	-	-
FCFE	24,286	11,080	23,002	12,419	18,842	18,723
Net change in cash	14,229	919	10,892	387	6,028	7,189
Closing cash	35,761	36,681	47,572	47,959	53,987	61,176

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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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