

**Pakistan Oilfields Limited**  
Result Preview

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

Pakistan Research

**POL: 2QFY23 earnings likely to clock in at PKR 26.5/share, up 33% YoY**

- POL's board meeting is scheduled on February 27, 2023, to consider 2QFY23 financial results. We expect the company to post an EPS of PKR 26.5, up 33% YoY compared to an EPS of PKR 19.9 in SPLY. This increase in earnings mainly emanates from 10% YoY higher crude oil prices (averaging at USD 88/bbl) and 22% YoY PKR devaluation (PKR 223/USD). This takes 1HFY23 earnings to PKR 56.2/share, up 46% YoY. Along with the result, POL is expected to announce an interim cash dividend of PKR 35/share.
- The company's net sales are likely to increase by 17% YoY and settle at PKR 14.7bn during 2Q. Despite higher oil prices (up 41% 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 9%/12% YoY owing to lower flows from Adhi, Jhandial fields and TAL block.
- Other income is likely to increase by 1.7x YoY to PKR 5.5bn during 2Q, owing to exchange gains and higher return on cash deposits.
- On sequential basis, POL is expected to post earnings decline of 10% QoQ, mainly on account of normalized tax expense during 2Q. Just to recall, POL booked 18% effective tax rate in preceding quarter.
- We have a 'BUY' stance on POL. Our Dec-23 price target (PT) of PKR 560/share provides an upside of 28% along with a dividend yield of 19%.

**Key Data**

PSX Ticker	POL
Target Price (PKR)	560
Current Price (PKR)	437
Upside/(Downside) (%)	+ 28%
Dividend Yield (%)	19.0%
Total Return (%)	+ 47%
12-month High (PKR)	460
12-month Low (PKR)	340
Outstanding Shares (mn)	284
Market Cap (PKR mn)	124,166
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Sales net	12,610	14,773	17%	23,687	30,749	30%
Field Expenditures	2,178	2,267	4%	4,192	4,377	4%
Royalties	1,315	1,767	34%	2,488	3,542	42%
<b>Gross Profit</b>	<b>8,489</b>	<b>10,163</b>	<b>20%</b>	<b>15,605</b>	<b>21,752</b>	<b>39%</b>
Other income	2,018	5,503	173%	4,718	12,138	157%
Other operating expenses	540	567	5%	956	1,059	11%
Finance costs	935	3,272	250%	2,397	6,107	155%
<b>Profit before Tax</b>	<b>8,869</b>	<b>11,256</b>	<b>27%</b>	<b>16,290</b>	<b>21,502</b>	<b>32%</b>
Taxation	3,204	3,714	16%	5,368	5,561	4%
<b>Net income (loss)</b>	<b>5,665</b>	<b>7,541</b>	<b>33%</b>	<b>10,923</b>	<b>15,941</b>	<b>46%</b>
EPS	19.9	26.5	33%	38.5	56.2	46%
DPS	20.0	35.0		20.0	35.0	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	57.7	47.1	91.4	109.7	107.9	92.9
EPS Growth	-2.9%	-18.3%	93.8%	20.1%	-1.6%	-14.0%
DPS	50.0	50.0	70.0	83.0	85.0	77.0
PER	7.6	9.3	4.8	4.0	4.1	4.7
Dividend Yield	11.4%	11.4%	16.0%	19.0%	19.4%	17.6%
EV/EBITDA	3.5	3.1	1.5	0.9	0.8	0.6
P/B	3.1	3.2	2.4	2.1	1.9	1.8
ROE	41.8%	33.6%	57.4%	56.8%	49.5%	39.1%

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 17% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 23%.

### Investment Thesis

We have a 'BUY' recommendation on POL. Our Dec-23 price target (PT) of PKR 560/share provides an upside of 28% along with a dividend yield of 19%. 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	61,916	65,428	60,590
Field Expenditures	13,537	12,929	15,242	20,097	17,695	19,209
Royalties	4,010	3,908	5,563	7,402	7,308	6,320
<b>Gross Profit</b>	<b>22,368</b>	<b>21,633</b>	<b>33,947</b>	<b>42,111</b>	<b>43,779</b>	<b>38,585</b>
<b>Operating Profit</b>	<b>20,771</b>	<b>20,944</b>	<b>32,865</b>	<b>36,610</b>	<b>42,574</b>	<b>37,143</b>
Other income	4,558	1,539	11,697	22,013	7,314	4,597
Other charges	1,383	1,545	2,026	2,478	2,401	2,026
Finance cost	2,212	260	5,549	10,906	3,658	2,731
<b>Profit before tax</b>	<b>21,734</b>	<b>20,678</b>	<b>36,987</b>	<b>45,238</b>	<b>43,829</b>	<b>36,983</b>
Taxation	5,359	7,296	11,052	14,101	13,191	10,620
<b>Profit after tax</b>	<b>16,376</b>	<b>13,382</b>	<b>25,935</b>	<b>31,137</b>	<b>30,638</b>	<b>26,363</b>

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	21,735	21,025	20,715
Non-Current Assets	32,320	30,518	29,577	27,689	26,769	26,298
Current assets	59,276	63,826	88,477	113,482	114,914	124,731
<b>Total Assets</b>	<b>91,596</b>	<b>94,344</b>	<b>118,054</b>	<b>141,171</b>	<b>141,682</b>	<b>151,029</b>
Non-Current liabilities	20,888	20,852	25,866	40,592	33,752	37,720
Current liabilities	30,441	34,130	41,125	41,938	42,781	43,653
<b>Total Liabilities</b>	<b>51,329</b>	<b>54,982</b>	<b>66,990</b>	<b>82,531</b>	<b>76,532</b>	<b>81,373</b>
Equity	40,267	39,362	51,063	58,640	65,150	69,656
<b>Total Equity &amp; liabilities</b>	<b>91,596</b>	<b>94,344</b>	<b>118,054</b>	<b>141,171</b>	<b>141,682</b>	<b>151,029</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	16,376	13,382	25,935	31,137	30,638	26,363
Non-cash Charges	5,503	4,803	6,057	5,873	4,923	4,501
<b>Operating Cash flows</b>	<b>17,372</b>	<b>25,698</b>	<b>31,107</b>	<b>29,410</b>	<b>33,197</b>	<b>31,408</b>
<b>FCFF</b>	<b>11,080</b>	<b>23,002</b>	<b>30,718</b>	<b>39,811</b>	<b>21,997</b>	<b>30,972</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>11,080</b>	<b>23,002</b>	<b>30,718</b>	<b>39,811</b>	<b>21,997</b>	<b>30,972</b>
Net change in cash	919	10,892	20,150	22,508	608	11,025
<b>Closing cash</b>	<b>36,681</b>	<b>47,572</b>	<b>67,723</b>	<b>90,230</b>	<b>90,839</b>	<b>101,863</b>

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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