

Pakistan Oilfields Limited
Result Preview

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

Pakistan Research

POL: 3QFY23 earnings likely to clock in at PKR 28.3/share, up 22% YoY

- POL's board meeting is scheduled on April 27, 2023, to consider 3QFY23 financial results. We expect the company to post an EPS of PKR 28.3, up 22% YoY compared to an EPS of PKR 23.2 in SPLY. This increase in earnings mainly emanates from 32% YoY PKR devaluation (PKR 261/USD). This takes 9MFY23 earnings to PKR 78.9/share, up 28% YoY.
- The company's net sales are likely to increase by 22% YoY and settle at PKR 16.3bn during 3Q. Despite significant currency devaluation, revenue growth is likely to be restricted owing to production decline. POL's oil/gas production is expected to contract by 2%/5% YoY owing to lower flows from Adhi, Jhandial fields and TAL block.
- Other income is likely to increase by 1.6x YoY to PKR 5.4bn during 3Q, owing to exchange gains and higher return on cash deposits.
- On sequential basis, POL is expected to post earnings growth of 35% QoQ, mainly on account of higher topline owing to PKR devaluation and higher other income.
- We have a 'BUY' stance on POL. Our Dec-23 price target (PT) of PKR 559/share provides an upside of 39% along with a dividend yield of 21.8%.

Key Data

PSX Ticker	POL
Target Price (PKR)	559
Current Price (PKR)	403
Upside/(Downside) (%)	+ 39%
Dividend Yield (%)	21.8%
Total Return (%)	+ 61%
12-month High (PKR)	460
12-month Low (PKR)	340
Outstanding Shares (mn)	284
Market Cap (PKR mn)	114,330
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Sales net	13,315	16,254	22%	37,002	46,252	25%
Field Expenditures	2,403	2,566	7%	6,595	7,759	18%
Royalties	1,425	1,983	39%	3,913	5,315	36%
Gross Profit	8,899	10,630	19%	24,504	30,597	25%
Other income	2,088	5,434	160%	6,806	14,173	108%
Other operating expenses	593	623	5%	1,549	1,777	15%
Finance costs	788	2,728	246%	3,185	5,077	59%
Profit before Tax	9,425	12,553	33%	25,715	32,097	25%
Taxation	2,852	4,515	58%	8,219	9,705	18%
Net income (loss)	6,573	8,039	22%	17,496	22,392	28%
EPS	23.2	28.3	22%	61.6	78.9	28%
DPS	0.0	0.0		20.0	20.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	57.7	47.1	91.4	115.8	108.8	94.8
EPS Growth	-2.9%	-18.3%	93.8%	26.7%	-6.0%	-12.8%
DPS	50.0	50.0	70.0	88.0	85.0	79.0
PER	7.0	8.5	4.4	3.5	3.7	4.2
Dividend Yield	12.4%	12.4%	17.4%	21.8%	21.1%	19.6%
EV/EBITDA	3.1	2.7	1.2	0.6	0.5	0.3
P/B	2.8	2.9	2.2	1.9	1.7	1.6
ROE	41.8%	33.6%	57.4%	59.7%	49.6%	39.6%

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 559/share provides an upside of 39% along with a dividend yield of 21.8%. 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	63,896	66,541	61,823
Field Expenditures	13,537	12,929	15,242	20,520	18,070	19,643
Royalties	4,010	3,908	5,563	7,785	7,503	6,496
Gross Profit	22,368	21,633	33,947	43,462	44,327	39,213
Operating Profit	20,771	20,944	32,865	37,794	43,123	37,771
Other income	4,558	1,539	11,697	23,626	6,711	4,632
Other charges	1,383	1,545	2,026	2,623	2,398	2,060
Finance cost	2,212	260	5,549	10,911	3,662	2,734
Profit before tax	21,734	20,678	36,987	47,885	43,773	37,608
Taxation	5,359	7,296	11,052	15,024	12,892	10,691
Profit after tax	16,376	13,382	25,935	32,862	30,881	26,917

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	21,775	21,055	20,739
Non-Current Assets	32,320	30,518	29,577	27,729	26,799	26,321
Current assets	59,276	63,826	88,477	113,748	115,433	125,244
Total Assets	91,596	94,344	118,054	141,476	142,232	151,565
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
Total Liabilities	51,329	54,982	66,990	82,531	76,532	81,373
Equity	40,267	39,362	51,063	58,946	65,699	70,192
Total Equity & liabilities	91,596	94,344	118,054	141,476	142,232	151,565

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	16,376	13,382	25,935	32,862	30,881	26,917
Non-cash Charges	5,503	4,803	6,057	5,878	4,936	4,511
Operating Cash flows	17,372	25,698	31,107	30,401	33,653	31,907
FCFF	11,080	23,002	30,718	40,757	22,450	31,469
Net borrowings	-	-	-	-	-	-
FCFE	11,080	23,002	30,718	40,757	22,450	31,469
Net change in cash	919	10,892	20,150	22,216	1,105	10,984
Closing cash	36,681	47,572	67,723	89,939	91,044	102,029

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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