

POL - FY21 EPS expected at PKR 46.9, -19% YoY; 4Q EPS at PKR 13.2, up 55% YoY

- POL's board meeting is scheduled on August 11, 2021, to announce 4QFY21 financial results, where we expect the company to post an EPS of PKR 13.2, up 55% YoY. The increase in earnings can mainly be attributed to the higher international crude oil price, averaging at USD 68/bbl. Furthermore, higher hydrocarbon production is also expected to uplift the earnings.
- For full-year FY21 earnings, EPS is likely to come at PKR 46.9, down 19% YoY. Along with the results, we expect the company to announce a final dividend of PKR 25/share, taking the cumulative dividend for FY21 to PKR 45/share.
- Hydrocarbon production is expected to remain higher during the quarter. Oil production is likely to witness an increase of ~16% YoY mainly because of recovery in output from TAL block and Adhi. Similarly, gas production is expected to increase by ~20% YoY due to higher production from the TAL block.
- Exploration cost is expected to decline 50% YoY, whereas we expect other income to fall 24% YoY during the quarter.
- On a sequential basis, POL is expected to post earnings growth of 28% QoQ, driven by a 10% increase in crude oil prices (in PKR terms) and a lower effective tax rate of 26%.
- Our Dec-21 price target (PT) of PKR 469/share provides an upside of 20% along with a dividend yield of 10.5%.
- We have a buy stance on POL and is trading at FY22 PE and PBV of 9.6x and 2.6x, respectively.

Key Data

PSX Ticker	POL
Target Price (PKR)	469
Current Price (PKR)	390
Upside/(Downside) (%)	+ 20%
Dividend Yield (%)	10.5%
Total Return (%)	+ 31%
12-month High (PKR)	443
12-month Low (PKR)	305
Outstanding Shares (mn)	284
Market Cap (PKR mn)	110,674
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Sales net	6,025	9,254	54%	38,475	36,917	-4%
Field Expenditures	1,420	1,912	35%	7,986	7,747	-3%
Royalties	590	973	65%	4,010	3,891	-3%
Gross Profit	3,169	5,240	65%	22,368	21,019	-6%
Other income	860	654	-24%	4,558	827	-82%
Other operating expenses	144	100	-30%	1,383	1,268	-8%
Finance costs	524	556	6%	2,212	134	-94%
Profit before Tax	3,091	5,078	64%	21,734	19,935	-8%
Taxation	663	1,321	99%	5,359	6,602	23%
Net income (loss)	2,428	3,757	55%	16,376	13,333	-19%
EPS	8.55	13.24	55%	57.69	46.97	-19%
DPS	30.00	25.00		50.00	45.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	48.13	59.43	57.69	46.97	40.47	48.96
EPS Growth	41%	23%	-3%	-19%	-14%	21%
DPS	42.50	50.00	50.00	45.00	36.00	43.00
PER	9.72	6.56	6.88	8.30	9.63	7.96
Dividend Yield	10.9%	12.8%	12.8%	11.5%	9.2%	11.0%
EV/EBITDA	4.81	2.67	3.04	2.82	3.05	2.65
P/B	3.38	2.91	2.75	2.71	2.63	2.53
ROE	35.4%	47.6%	41.1%	32.9%	27.7%	32.4%

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 11% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on POL. Our Dec-21 price target (PT) of PKR 469/share provides an upside of 20% along with a dividend yield of 10.5%. 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)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net sales	32,665	43,977	38,196	36,917	34,876	39,482
Field Expenditures	14,911	16,244	13,694	12,516	13,116	14,070
Royalties	3,778	4,554	4,010	3,891	4,085	4,725
Gross Profit	17,136	25,410	22,368	21,019	19,442	22,679
Operating Profit	13,976	23,180	20,771	20,510	17,674	20,687
Other income	3,262	7,177	4,558	827	1,271	2,129
Other charges	967	1,729	1,383	1,268	964	1,186
Finance cost	1,919	3,774	2,212	134	2,837	2,989
Profit before tax	14,353	24,854	21,734	19,935	15,144	18,641
Taxation	2,969	7,983	5,359	6,602	3,658	4,742
Profit after tax	11,384	16,871	16,376	13,333	11,487	13,898

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	8,755	7,747	7,057	6,322	5,712	5,202
Other LT assets	25,475	22,313	25,264	25,496	26,420	27,556
Non-Current Assets	34,230	30,060	32,320	31,818	32,131	32,758
Current assets	35,937	51,429	59,276	61,419	63,966	66,446
Total Assets	70,167	81,490	91,596	93,237	96,098	99,204
Non-Current liabilities	16,481	17,902	20,888	21,384	22,371	23,158
Current liabilities	20,917	25,517	30,441	31,027	31,632	32,259
Total Liabilities	37,398	43,419	51,329	52,411	54,003	55,417
Equity	32,769	38,071	40,267	40,827	42,094	43,787
Total Equity & liabilities	70,167	81,490	91,596	93,237	96,098	99,204

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	11,384	16,871	16,376	13,333	11,487	13,898
Non cash Charges	5,151	5,611	5,427	5,619	5,622	5,812
Operating Cash flows	19,560	22,646	17,295	20,597	18,083	18,114
FCFF	15,897	24,286	11,080	15,633	12,775	12,086
Net borrowings	-	-	-	-	-	-
FCFE	15,897	24,286	11,080	15,633	12,775	12,086
Net change in cash	7,351	14,229	919	4,937	3,285	640
Closing cash	21,533	35,761	36,681	41,617	44,903	45,543

Source: Company Accounts, Akseer Research

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