Alfa Adhi Securities
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

Pakistan Oilfields Limited (POL):
Safer bet amongst E&Ps

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Reiterate 'BUY' with PT of PKR 484/share

- We revise our earnings estimates upward for Pakistan Oilfields (POL) after incorporating latest annual financials, PKR devaluation and improvement in international oil prices. Our new EPS forecast for FY22/23 now comes at PKR 45.8/51.9, compared to previous estimates of PKR 40.0/48.4 respectively.
- We have also rolled forward our PT to June-22, which comes at PKR 484, offering an upside of 26%, along with a dividend yield of 10.5%. The stock is currently trading at an implied oil price of USD 35/barrel which is at a discount of 36% to our assumption of USD 55/barrel.
- Additional production from latest discovery of Mamikhel South in TAL block is expected to uplift POL's earnings.
- Furthermore, no exposure to circular debt and consistent dividend payout makes POL attractive among local E&P companies.
- POL is also sitting on huge cash reserves of PKR 48.0bn which could be used for inorganic growth.
- We reiterate 'BUY' on POL. The stock is trading at FY22 PE and PBV of 8.4x and 2.8x, respectively.

Key Data	
PSX Ticker	**POL**
Target Price (PKR)	484
Current Price (PKR)	382
Upside/(Downside) (%)	+ 26%
Dividend Yield (%)	10.5%
Total Return (%)	+ 37%
12-month High (PKR)	438
12-month Low (PKR)	305
Outstanding Shares (mn)	284
Market Cap (PKR mn)	108,520
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	59.43	57.69	47.14	45.80	51.88	43.11
EPS Growth	23%	-3%	-18%	-3%	13%	-17%
DPS	50.00	50.00	50.00	40.00	46.00	38.00
PER	6.43	6.74	8.28	8.35	7.37	8.87
Div. Yield	13.1%	13.1%	13.1%	10.5%	12.0%	9.9%
EV/EBITDA	2.60	2.95	2.50	2.77	2.47	2.84
P/B	2.85	2.69	2.76	2.65	2.54	2.46
ROE	47.6%	41.1%	32.9%	32.4%	35.2%	28.2%

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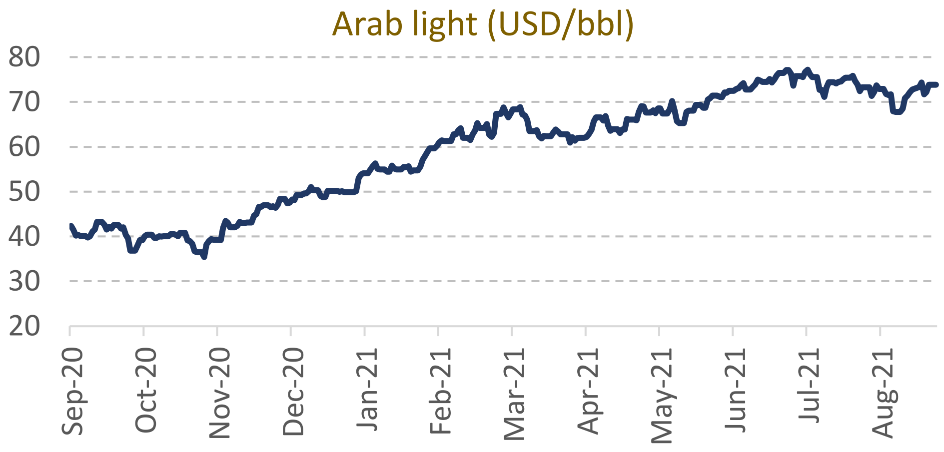
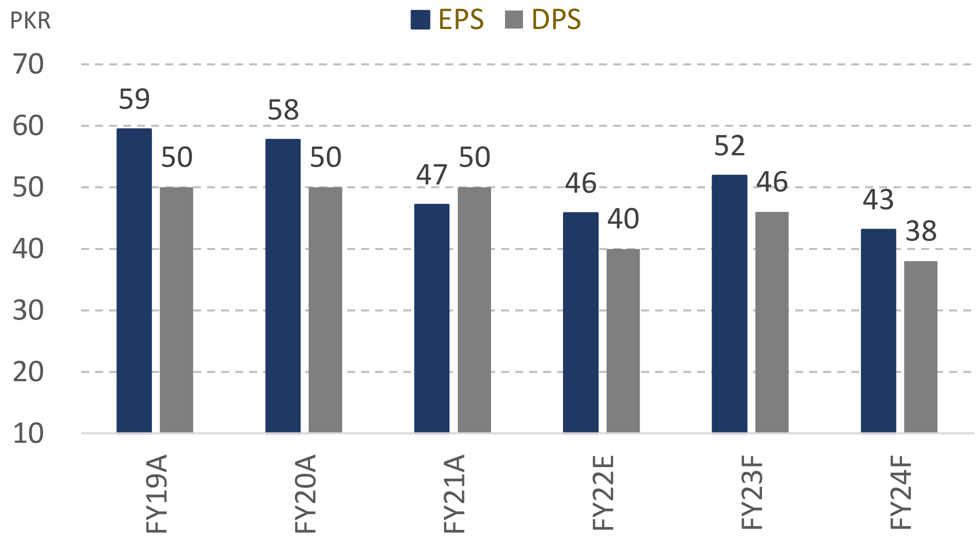
Higher oil price and PKR devaluation to keep earnings upbeat

- **Earnings revised up by 7.2%/14.5%**
  - We have revised upward our earnings estimates for POL owing to significant recovery in international crude oil prices. We now expect Arab Light oil price to average USD 55/barrel in FY22 and beyond from our earlier assumption of USD 50/barrel.
  - Oil prices have witnessed an upward trend in the past few months due to recovery in global demand as a result of vaccine availability, and resumption of normal economic activities. International oil prices have surged 44% since Jan-21 and currently hover around USD 72/bbl (after peaking at USD 77/bbl in July-21).
  - Furthermore, the PKR devaluation against the USD also provides an upside trigger for the company due to its Dollar denominated revenues. We expect exchange rate to average at PKR 168/USD in FY22 as against PKR 163/USD previously.
  - Resultantly, our FY22/23 earnings are expected to clock in at PKR 45.8/51.9, respectively compared to our earlier estimates of PKR 40.0/48.4 respectively, (up 7.2%/14.5%) . Increase in FY23 EPS is mainly due to additional flows from Jhandial field.



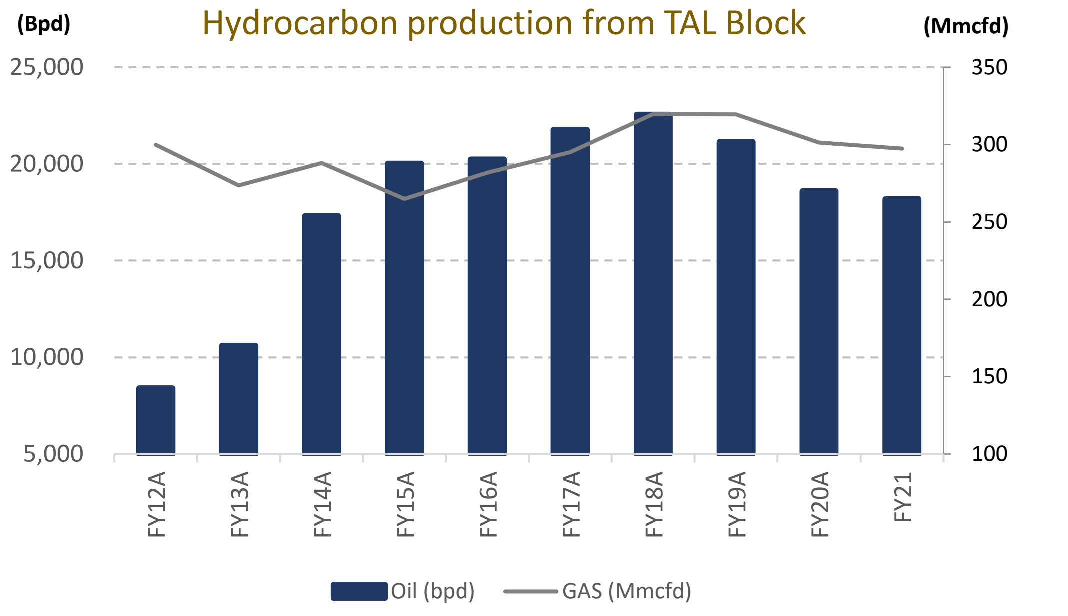
Source: Investing & Akseer Research



Source: Company Accounts & Akseer Research

Exploration & Production update

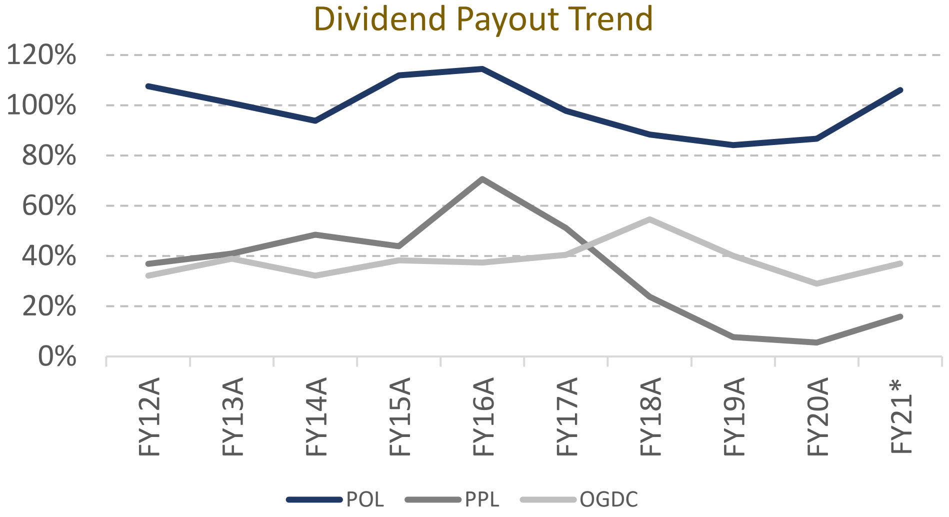
- **Delay in materializing Mamikhel South discovery**
  - As per the latest financials, commencement of production from Mamikhel South discovery has been delayed (earlier it was expected in March-21). The production line has been completed and the company is awaiting government's approval to start the production. As per our discussion with the management, the production from the field will commence as soon as the GoP gives go ahead.
  - To recall, Mamikhel south exploratory well in TAL block was discovered in July-20 wherein the initial testing yielded 3,240bpd of oil and 16.12mmcfd of gas.
- **Jhandial-2: A disappointment so far**
  - According to the management, 3 out of 4 formations in Jhandial-2 have been tested with no potential discovery. The company was in the process of acquiring 3D seismic data over Langrial prospect which was delayed due to non-performance of the contractor.
  - As per the latest communication, the company is optimistic about field's prospects, the issue with the contractor has been resolved and the work on 4th formation is expected to start soon.
- **Exploratory wells planned in FY22**
  - POL is expected to spud an exploratory well DGK-1 in its own operated DG khan block during September-21.
  - Further, in TAL block (operated by MOL), Razgir exploratory well has also been approved.
  - To highlight, TAL block contributes ~60% oil and ~80% gas in POL's overall production portfolio and is located in a high yield area where the prospects of discovery are better compared to other blocks.

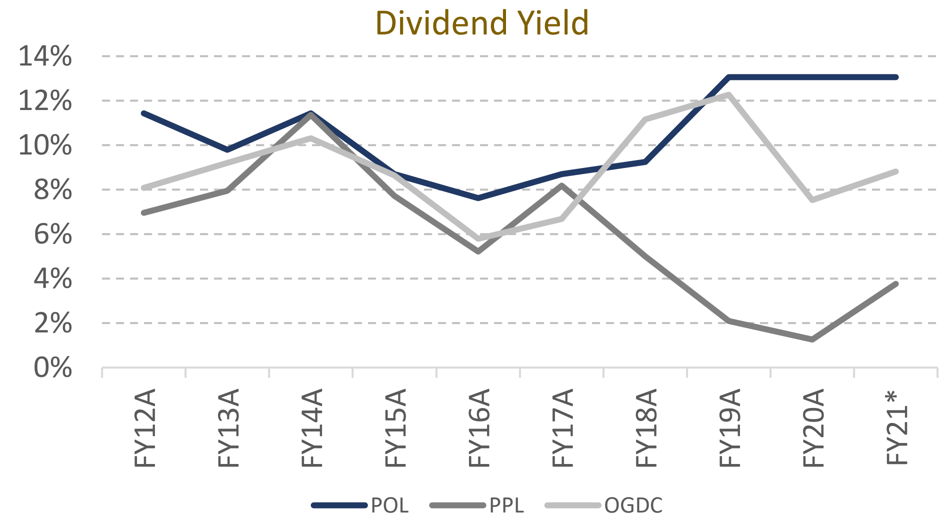


Source: Company Accounts & Akseer Research

Immunity from circular debt and consistent dividend payout

- **Zero exposure to circular debt makes POL attractive**
  - Unlike peers, POL is immune to energy sector circular debt pile up which has dented local E&Ps' valuations. As at March 31, 2021, OGDC and PPL both had overdue receivables of PKR 291bn and PKR 263bn, respectively, due from power sector, gas utilities and refineries.
- **Despite headwinds, company maintains higher dividend payout**
  - POL has the history of distributing most of its earnings to shareholders and during FY21 as well, the dividend payout remained 106%. Similarly, company's dividend payout during the last 10 years averaged ~99%. We expect the company to maintain a consistent dividend payout going forward.
- **Sitting on huge cash reserves of PKR 48bn**
  - POL is currently sitting on huge cash reserves of PKR 48bn which translates into per share value of PKR 170. The company might consider acquiring assets to increase its reserves through inorganic growth; however, at present, there is no active investment under consideration.



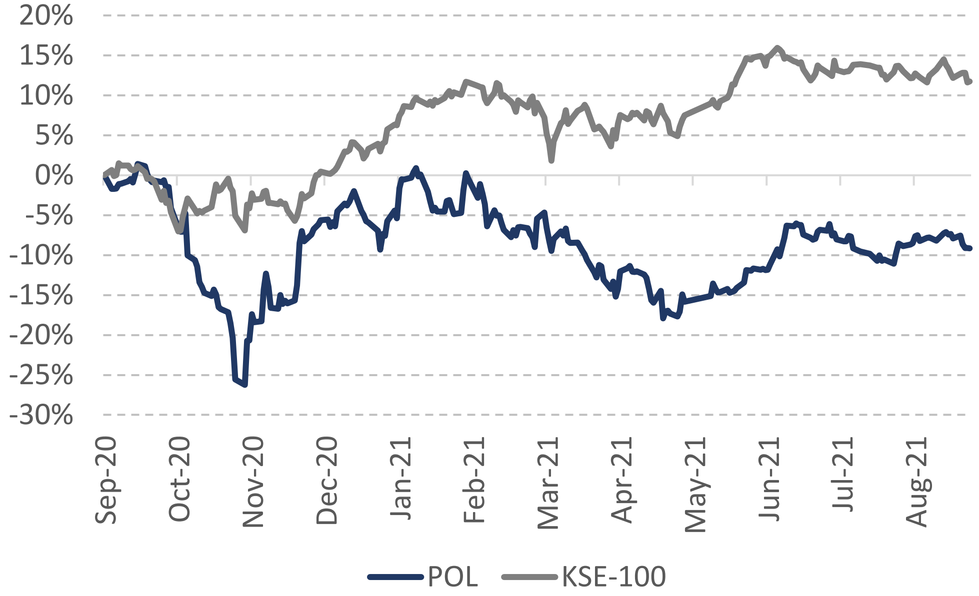


Source: Company Accounts & Akseer Research
** Estimated for PPL and OGDC*

Risk - Return Profile

- **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**
  - Our investment case on POL is based on:
    1) Higher oil prices to provide impetus to earnings,
    2) Likely devaluation to increase earnings, and
    3) Incremental production from new discoveries in FY21 to grow revenue.
- **Risks**
  - Key risks to our investment thesis are
    1) Volatility in oil prices,
    2) lower than expected production from Jhandial discovery,
    3) Appreciation in PKR against USD, and
    4) Delay in connection of discoveries.

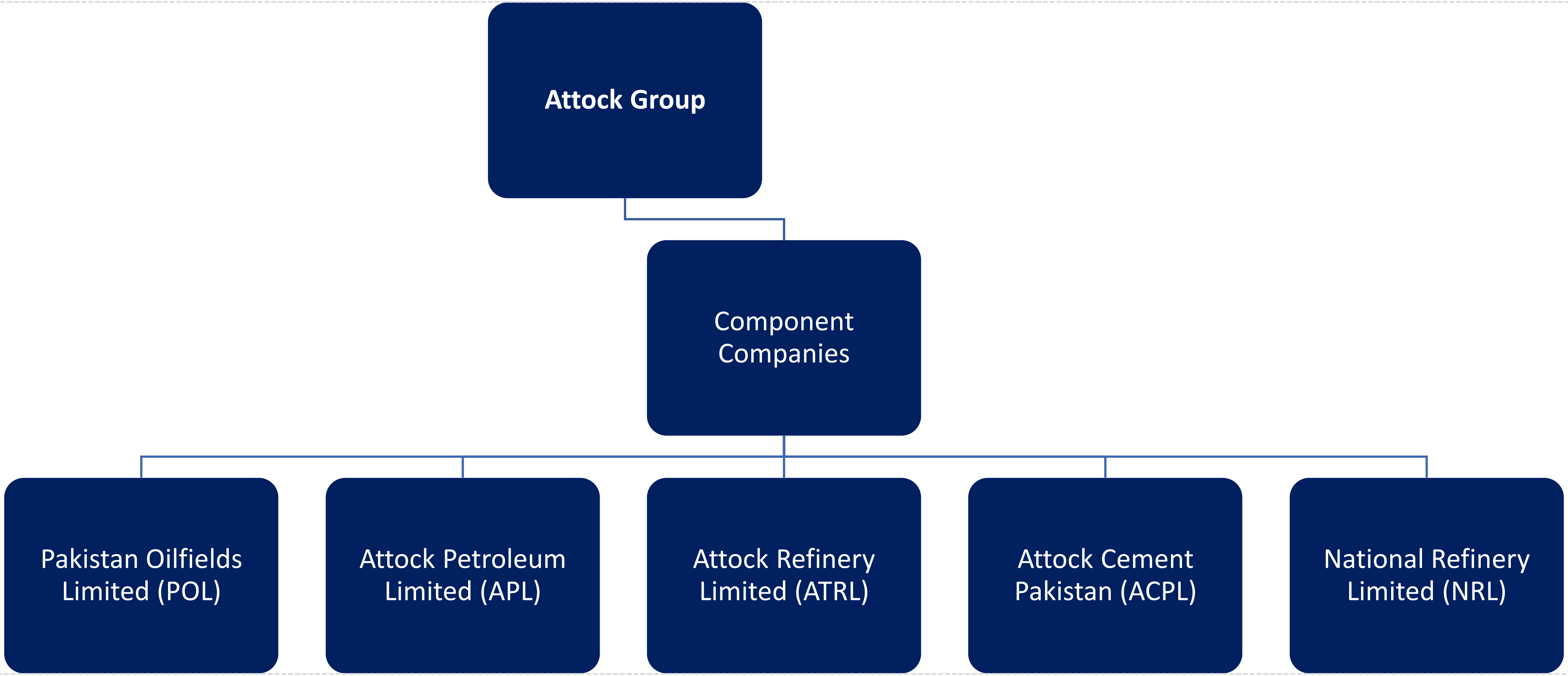
Relative price performance



Source: PSX & Akseer Research

Company Overview

- **Company Description**
  - A subsidiary of The Attock Group, 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 operation of a network of pipelines for the transportation of crude oil. The company was incorporated in 1950 and is headquartered in Rawalpindi, Pakistan.
- **Group Structure**



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Financial Highlights

Income Statement (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Sales	43,977	36,540	36,042	35,585	38,900	34,035
Operating Costs	8,848	6,330	6,791	6,653	7,647	8,021
Royalty	4,554	4,010	3,908	4,225	4,708	4,157
Exploration Costs	2,049	1,405	494	2,007	2,214	2,617
Admin Cost	181	192	195	204	214	225
EBITDA	**28,036**	**24,602**	**24,376**	**22,220**	**23,816**	**18,751**
Depreciation	1,545	1,422	1,499	1,384	1,202	1,054
Amort. of devel. & decom. cost	3,312	2,410	2,212	2,666	2,418	1,805
Gross Profit	**25,410**	**22,368**	**21,354**	**20,381**	**22,624**	**18,734**
Operating Profit	**23,180**	**20,771**	**20,665**	**18,170**	**20,195**	**15,892**
Financial Charges	3,774	2,212	260	2,421	1,987	1,615
Other charges	1,729	1,383	1,545	1,219	1,399	1,128
Other Income	7,177	4,558	1,539	1,787	1,906	1,950
Profit Before Tax	**24,854**	**21,734**	**20,399**	**16,317**	**18,715**	**15,099**
Taxation	7,983	5,359	7,296	3,316	3,989	2,861
Net Profit	**16,871**	**16,376**	**13,103**	**13,001**	**14,725**	**12,238**
Ratios						
EPS	59.43	57.69	46.16	45.80	51.88	43.11
DPS	50.00	50.00	50.00	40.00	46.00	38.00
Payout Ratio	84%	87%	108%	87%	89%	88%

Source: Company Accounts & Akseer Research

Financial Highlights

Balance Sheet (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Trade debts	8,908	7,634	7,339	7,245	7,920	6,930
Other working capital assets	6,760	14,961	8,915	14,785	15,740	14,879
Cash	35,761	36,681	47,572	46,932	49,807	55,326
Current assets	**51,429**	**59,276**	**63,826**	**68,962**	**73,467**	**77,135**
PPE	7,747	7,057	6,129	5,255	4,541	3,955
Devl. & decomm. Cost	11,054	12,356	13,673	12,698	12,132	12,167
Other non current assets	11,260	12,908	10,716	10,639	10,576	10,526
Total assets	**81,490**	**91,596**	**94,344**	**97,555**	**100,717**	**103,783**
Creditors	19,329	23,409	25,695	25,952	26,212	26,474
Provisions	5,996	6,817	8,190	8,600	9,030	9,481
Other liabilities	191	214	244	257	270	283
Current liabilities	**25,517**	**30,441**	**34,130**	**34,809**	**35,511**	**36,238**
Deferred liabilities	17,057	20,027	19,978	20,820	21,566	22,406
Other liabilities	845	861	873	917	963	1,011
Total liabilities	**43,419**	**51,329**	**54,982**	**56,546**	**58,039**	**59,655**
Retained Earnings	35,232	37,428	36,524	38,170	39,839	41,290
Shareholders' equity	38,071	40,267	39,362	41,009	42,677	44,128
Total equity and liabilities	**81,490**	**91,596**	**94,344**	**97,555**	**100,717**	**103,783**
Ratios						
BVPS	134.12	141.86	138.67	144.47	150.35	155.46
ROCE	19.01%	16.94%	13.91%	11.91%	13.55%	10.94%
ROA	22.25%	18.60%	14.09%	13.55%	14.85%	11.97%
ROE	47.63%	41.10%	32.91%	32.35%	35.19%	28.20%

Source: Company Accounts & Akseer Research

Financial Highlights

Cashflow Statement (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Pre-Tax Income	24,854	21,734	20,678	16,317	18,715	15,099
Depreciation	1,545	1,422	1,499	1,384	1,202	1,054
Amortisation of E&D	3,312	2,410	2,212	2,666	2,418	1,805
Other Adjustments	(8,992)	(5,692)	(6,715)	(2,241)	(2,986)	(1,736)
Working capital	1,928	(2,579)	8,056	(5,538)	(1,371)	2,073
CFO	**22,646**	**17,295**	**25,730**	**12,588**	**17,978**	**18,295**
Fixed Capital Expenditure	1,640	(6,215)	(2,728)	(2,610)	(2,826)	(2,728)
Interest Received	1,883	3,061	2,088	615	654	610
Other Adjustments	(395)	924	54	70	72	73
CFI	**3,129**	**(2,229)**	**(586)**	**(1,924)**	**(2,100)**	**(2,045)**
Dividends Paid	(14,172)	(14,170)	(14,163)	(11,342)	(13,044)	(10,773)
Adjustment in Equity	2,627	13	(94)	0	0	(0)
Other Adjustments	(0)	10	4	39	41	43
CFF	**(11,546)**	**(14,147)**	**(14,253)**	**(11,303)**	**(13,004)**	**(10,730)**
Net Change in Cash	14,229	919	10,892	(640)	2,874	5,519
Beginning Cash	21,533	35,761	36,681	47,572	46,932	49,807
Ending Cash	**35,761**	**36,681**	**47,572**	**46,932**	**49,807**	**55,326**

Source: Company Accounts & Akseer Research

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

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