

**Pakistan Oilfields Limited**  
Result Review

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

Pakistan Research

## Higher oil price, PKR devaluation and elevated other income lifts 1QFY23 earnings

- POL announced its 1QFY23 financial results today where the company reported an EPS of PKR 29.6, up 60% YoY. This increase in earnings mainly emanates from 43% YoY higher crude oil prices, 27% YoY PKR devaluation and elevated other income.
- The company's net sales grew by 44% YoY and settled at PKR 15.9bn during 1Q. Despite higher oil prices (up 95% YoY in PKR terms), revenue growth remained restricted owing to production decline. POL's oil/gas production is expected to have been contracted by 7%/9% YoY owing to lower flows from Adhi, Jhandial fields and TAL block.
- Exploration cost increased by 9.0x to PKR 4.5bn as compared to PKR 0.4bn in SPLY. We believe the company may have booked dry well cost pertaining to DGK-01 exploratory well in DG Khan block.
- On the other hand, POL booked massive increase in other income at 146% YoY to PKR 6.6bn due to exchange gains during the period and higher return on cash deposits.
- On sequential basis, POL's earnings remained flat despite higher topline. This is mainly due to massive exploration cost booked during the quarter. On the contrary, lower effective tax rate at 18% restricted the bottomline erosion during 1Q.
- We have a 'BUY' stance on POL. Our June-23 price target (PT) of PKR 535/share provides an upside of 42% along with a dividend yield of 19.9%.

### Key Data

PSX Ticker	POL
Target Price (PKR)	535
Current Price (PKR)	377
Upside/(Downside) (%)	+ 42%
Dividend Yield (%)	19.9%
Total Return (%)	+ 62%
12-month High (PKR)	431
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	107,132
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Sales net	11,077	15,976	44%
Field Expenditures	2,014	2,109	5%
Royalties	1,173	1,774	51%
<b>Gross Profit</b>	<b>7,116</b>	<b>11,589</b>	<b>63%</b>
Exploration Cost	451	4,526	904%
Other income	2,700	6,635	146%
Other operating expenses	416	492	18%
Finance costs	1,462	2,835	94%
<b>Profit before Tax</b>	<b>7,421</b>	<b>10,246</b>	<b>38%</b>
Taxation	2,163	1,847	-15%
<b>Net income (loss)</b>	<b>5,258</b>	<b>8,400</b>	<b>60%</b>
EPS	18.52	29.59	60%
DPS	-	-	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	57.7	47.1	91.4	95.8	88.0	75.5
EPS Growth	-2.9%	-18.3%	93.8%	4.8%	-8.2%	-14.2%
DPS	50.0	50.0	70.0	75.0	70.0	64.0
PER	7.3	9.2	4.4	4.3	4.7	5.5
Dividend Yield	13.2%	13.2%	18.5%	19.9%	18.5%	17.0%
EV/EBITDA	3.1	2.6	1.1	0.7	0.5	0.4
P/B	2.7	2.7	2.1	1.9	1.7	1.6
ROE	37.3%	29.2%	53.5%	46.3%	38.4%	30.4%

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 13% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 19%.

### Investment Thesis

We have a 'BUY' recommendation on POL. Our Jun-23 price target (PT) of PKR 535/share provides an upside of 42% along with a dividend yield of 19.9%. 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	57,412	55,702	50,307
Field Expenditures	13,537	12,929	15,242	14,943	15,702	16,502
Royalties	4,010	3,908	5,563	7,093	6,242	5,244
<b>Gross Profit</b>	<b>22,368</b>	<b>21,633</b>	<b>33,947</b>	<b>38,429</b>	<b>36,890</b>	<b>31,789</b>
<b>Operating Profit</b>	<b>20,771</b>	<b>20,944</b>	<b>32,865</b>	<b>37,547</b>	<b>35,861</b>	<b>30,594</b>
Other income	4,558	1,539	11,697	6,062	3,173	3,046
Other charges	1,383	1,545	2,026	2,103	1,927	1,639
Finance cost	2,212	260	5,549	3,125	1,934	2,091
<b>Profit before tax</b>	<b>21,734</b>	<b>20,678</b>	<b>36,987</b>	<b>38,382</b>	<b>35,173</b>	<b>29,911</b>
Taxation	5,359	7,296	11,052	11,193	10,208	8,488
<b>Profit after tax</b>	<b>16,376</b>	<b>13,382</b>	<b>25,935</b>	<b>27,189</b>	<b>24,965</b>	<b>21,422</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	21,578	20,660	20,141
Non-Current Assets	32,320	30,518	29,577	27,532	26,404	25,724
Current assets	59,276	63,826	88,477	101,908	108,225	115,101
<b>Total Assets</b>	<b>91,596</b>	<b>94,344</b>	<b>118,054</b>	<b>129,440</b>	<b>134,628</b>	<b>140,824</b>
Non-Current liabilities	20,888	20,852	25,866	30,538	29,789	31,858
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>72,477</b>	<b>72,570</b>	<b>75,510</b>
Equity	40,267	39,362	51,063	56,963	62,058	65,314
<b>Total Equity &amp; liabilities</b>	<b>91,596</b>	<b>94,344</b>	<b>118,054</b>	<b>129,440</b>	<b>134,628</b>	<b>140,824</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	16,376	13,382	25,935	27,189	24,965	21,422
Non-cash Charges	5,503	4,803	6,057	5,854	4,839	4,348
<b>Operating Cash flows</b>	<b>17,372</b>	<b>25,698</b>	<b>31,107</b>	<b>31,418</b>	<b>30,206</b>	<b>27,114</b>
<b>FCFF</b>	<b>11,080</b>	<b>23,002</b>	<b>30,718</b>	<b>31,941</b>	<b>25,389</b>	<b>25,140</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>11,080</b>	<b>23,002</b>	<b>30,718</b>	<b>31,941</b>	<b>25,389</b>	<b>25,140</b>
Net change in cash	919	10,892	20,150	12,201	6,962	8,240
<b>Closing cash</b>	<b>36,681</b>	<b>47,572</b>	<b>67,723</b>	<b>79,924</b>	<b>86,886</b>	<b>95,126</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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