

Pakistan Oilfields Limited
Result Review

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

Pakistan Research

POL: 2QFY23 earnings clocked in at PKR 20.9/share, DPS at PKR 20.0

- POL announced its 2QFY23 financial results today, where the company reported an EPS of PKR 20.9, up 5% YoY compared to an EPS of PKR 19.9 in SPLY. The result came in lower than our expectation owing to higher operating expenses and lower other income. This takes 1HFY23 earnings to PKR 50.6/share, up 31% YoY. Along with the result, POL announced an interim cash dividend of PKR 20/share.
- The company's net sales grew by 11% YoY and settled at PKR 14.0bn during 2Q. Despite higher oil prices (up 41% YoY in PKR terms), revenue growth remained restricted owing to decline in oil and gas production.
- Operating expenses went up by 42% YoY to PKR 3.1bn during 2Q, possibly due to inflationary cost. Other income increased by mere 4% YoY to PKR 2.1bn vs PKR 2.0bn in SPLY, owing to absence of significant exchange gains during the quarter.
- Sequentially, POL's earnings declined by 29% QoQ, primarily due to 1) decline in sales revenue (-12% QOQ), 2) increase in operating cost (+46% QoQ), 3) lower other income (-46% QoQ) and, 4) normalized tax expense (ETR at 36% vs 18% in 1Q).
- We have a 'BUY' stance on POL. Our Dec-23 price target (PT) of PKR 560/share provides an upside of 27% along with a dividend yield of 18.8%.

Key Data

PSX Ticker	POL
Target Price (PKR)	560
Current Price (PKR)	442
Upside/(Downside) (%)	+ 27%
Dividend Yield (%)	18.8%
Total Return (%)	+ 45%
12-month High (PKR)	460
12-month Low (PKR)	340
Outstanding Shares (mn)	284
Market Cap (PKR mn)	125,571
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Sales net	12,610	14,021	11%	23,687	29,998	27%
Field Expenditures	2,178	3,084	42%	4,192	5,193	24%
Royalties	1,315	1,557	18%	2,488	3,331	34%
Gross Profit	8,489	8,378	-1%	15,605	19,967	28%
Other income	2,018	2,104	4%	4,718	8,739	85%
Other operating expenses	540	662	23%	956	1,154	21%
Finance costs	935	(486)	-152%	2,397	2,349	-2%
Profit before Tax	8,869	9,297	5%	16,290	19,544	20%
Taxation	3,204	3,344	4%	5,368	5,191	-3%
Net income (loss)	5,665	5,954	5%	10,923	14,353	31%
EPS	20.0	21.0	5%	38.5	50.6	31%
DPS	20.0	20.0		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	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	7.7	9.4	4.8	4.0	4.1	4.8
Dividend Yield	11.3%	11.3%	15.8%	18.8%	19.2%	17.4%
EV/EBITDA	3.6	3.2	1.5	0.9	0.8	0.6
P/B	3.1	3.2	2.5	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 27% along with a dividend yield of 18.8%. 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	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
Gross Profit	22,368	21,633	33,947	42,111	43,779	38,585
Operating Profit	20,771	20,944	32,865	36,610	42,574	37,143
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
Profit before tax	21,734	20,678	36,987	45,238	43,829	36,983
Taxation	5,359	7,296	11,052	14,101	13,191	10,620
Profit after tax	16,376	13,382	25,935	31,137	30,638	26,363

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
Total Assets	91,596	94,344	118,054	141,171	141,682	151,029
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	58,640	65,150	69,656
Total Equity & liabilities	91,596	94,344	118,054	141,171	141,682	151,029

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
Operating Cash flows	17,372	25,698	31,107	29,410	33,197	31,408
FCFF	11,080	23,002	30,718	39,811	21,997	30,972
Net borrowings	-	-	-	-	-	-
FCFE	11,080	23,002	30,718	39,811	21,997	30,972
Net change in cash	919	10,892	20,150	22,508	608	11,025
Closing cash	36,681	47,572	67,723	90,230	90,839	101,863

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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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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