

Pakistan Oilfields Limited
Result Preview

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

Pakistan Research

3QFY22 EPS expected at PKR 20.9, up 103% YoY

- POL's board meeting is scheduled on April 21, 2022, to consider 3QFY22 financial results, where we expect the company to post an EPS of PKR 20.9, up 103% YoY. The increase in earnings can mainly be attributed to 66% YoY higher international crude oil prices (averaging at USD 100/bbl) and 11% YoY PKR devaluation (averaging at PKR 177/USD). This will take 9MFY22 earnings to PKR 59.4/share, up 76% YoY.
- Net sales are likely to clock in at PKR 13.5bn, up 42% YoY. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 13% and 10% YoY decline in POL's oil and gas production, respectively. Major decline is expected from TAL block and Adhi field.
- Other income is likely to clock in at PKR 2.1bn Vs loss in SPLY owing to exchange gains on financial assets booked during the quarter.
- On a sequential basis, POL is expected to post earnings growth of 5% QoQ. Despite higher crude oil prices and PKR devaluation, earnings growth is likely to remain subdued due to decline in oil & gas production by 5% QoQ each.
- We have a 'BUY' stance on POL. Our Dec-22 price target (PT) of PKR 530/share provides an upside of 37% along with a dividend yield of 16%.

Key Data

PSX Ticker	POL
Target Price (PKR)	530
Current Price (PKR)	388
Upside/(Downside) (%)	+ 37%
Dividend Yield (%)	15.5%
Total Return (%)	+ 52%
12-month High (PKR)	405
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	110,192
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Sales net	9,464	13,474	42%	27,455	37,162	35%
Field Expenditures	2,438	2,822	16%	6,939	7,014	1%
Royalties	987	1,519	54%	2,919	4,007	37%
Gross Profit	5,462	8,066	48%	15,778	23,671	50%
Other income	(372)	2,116	NM	173	6,834	38.5x
Other operating expenses	421	644	53%	1,168	1,600	37%
Finance costs	(320)	1,047	NM	(422)	3,444	NM
Profit before Tax	4,867	8,367	72%	14,856	24,657	66%
Taxation	1,940	2,426	25%	5,280	7,794	48%
Net income (loss)	2,927	5,940	103%	9,576	16,863	76%
EPS	10.31	20.93	103%	33.74	59.41	76%
DPS	0.00	0.00		20.00	20.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	59.43	57.69	47.14	79.29	73.78	60.53
EPS Growth	23%	-3%	-18%	68%	-7%	-18%
DPS	50.00	50.00	50.00	60.00	58.00	48.00
PER	6.53	6.85	8.41	4.90	5.26	6.41
Dividend Yield	12.9%	12.9%	12.9%	15.5%	14.9%	12.4%
EV/EBITDA	2.65	3.02	2.57	1.81	1.69	1.73
P/B	2.89	2.74	2.80	2.46	2.23	2.08
ROE	47.6%	41.1%	32.9%	53.5%	44.5%	33.6%

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 12% beta of 1.0 & a market risk premium of 6% to arrive at the cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on POL. Our Dec-22 price target (PT) of PKR 530/share provides an upside of 37% along with a dividend yield of 16%. 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	43,977	36,540	36,042	49,907	48,678	42,509
Field Expenditures	16,244	12,038	11,469	13,180	13,625	13,259
Royalties	4,554	4,010	3,908	5,609	5,256	4,280
Gross Profit	25,410	22,368	21,633	32,003	30,752	26,054
Operating Profit	23,180	20,771	20,944	31,118	29,798	24,970
Other income	7,177	4,558	1,539	7,053	2,159	2,029
Other charges	1,729	1,383	1,545	2,363	2,173	1,763
Finance cost	3,774	2,212	260	4,188	706	1,643
Profit before tax	24,854	21,734	20,678	31,620	29,078	23,593
Taxation	7,983	5,359	7,296	9,114	8,134	6,410
Profit after tax	16,871	16,376	13,382	22,506	20,944	17,183

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	7,747	7,057	6,129	5,255	4,541	3,955
Other LT assets	22,313	25,264	24,389	23,051	22,144	21,931
Non-Current Assets	30,060	32,320	30,518	28,306	26,685	25,886
Current assets	51,429	59,276	63,826	73,076	80,671	86,643
Total Assets	81,490	91,596	94,344	101,382	107,356	112,530
Non-Current liabilities	17,902	20,888	20,852	21,737	22,529	23,417
Current liabilities	25,517	30,441	34,130	34,809	35,511	36,238
Total Liabilities	43,419	51,329	54,982	56,546	58,039	59,655
Equity	38,071	40,267	39,362	44,836	49,317	52,874
Total Equity & liabilities	81,490	91,596	94,344	101,382	107,356	112,530

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	16,871	16,376	13,382	22,506	20,944	17,183
Non-cash Charges	5,611	5,427	4,834	5,070	4,515	3,708
Operating Cash flows	22,646	17,295	25,730	16,179	25,075	23,211
FCFF	24,286	11,080	23,002	13,879	22,629	20,832
Net borrowings	-	-	-	-	-	-
FCFE	24,286	11,080	23,002	13,879	22,629	20,832
Net change in cash	14,229	919	10,892	(1,024)	7,392	8,233
Closing cash	35,761	36,681	47,572	46,548	53,940	62,173

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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Sell	Less than or equal to -5%

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