

Pakistan Oilfields Limited

Key Takeaways

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

Pakistan Research

Corporate Briefing Key Takeaways

- POL conducted its corporate briefing today following FY22 financial results, wherein the management discussed its annual performance and status of ongoing projects. Main points discussed during the call are presented below.
- Regarding the Jhnadial field in Ikhlas block, where POL has 80% stake, management apprised that production is low from Jhnadial 1, whereas Jhnadial 2 was unsuccessful. Currently, Jhnadial 3D seismic data processing in progress and on the basis of interpretation, well location of Jhnadial 3 will be decided. The management further informed that the reserves of Jhnadial could be revised if need be.
- Production from Tolanj West 2 in TAL block is expected to come online in couple of months. Just to recall, MOL, TAL block operator, discovered 10.6mmcf of gas and 34 bpd of oil in the said well recently. POL has 21% stake in TAL block.
- Mamikhel South discovery has not come online as yet due to dispute over pricing as per 2012 policy. Management is continuously in discussion with operator and regulator regarding this issue. Management further informed that, the work although not at stand still, has slowed down in TAL block. Just to recall, there is a dispute between MOL along with JV partners and the government over windfall levy on gas. In 2018, the JV partners filed a case in Islamabad High Court over this and its still pending. In last update, Honourable Court suggested the Federal government to place the matter before council of common interest for the resolution.
- In DG Khan block where POL is the operator with 70% stake, an exploratory well has been drilled which is in testing phase after reaching its target depth of 5,142 meters.

Key Data

PSX Ticker	POL
Target Price (PKR)	550
Current Price (PKR)	353
Upside/(Downside) (%)	+ 56%
Dividend Yield (%)	19.8%
Total Return (%)	+ 76%
12-month High (PKR)	431
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	100,149
Year End	June

Source: Company Accounts, Akseer Research

Aftab Awan

aftab.awan@alphacapital.com.pk

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 550/share provides an upside of 56% along with a dividend yield of 19.8%. 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)						
	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
Net sales	43,668	36,540	36,042	51,945	56,236	54,036
Field Expenditures	17,875	13,537	12,929	15,242	14,949	15,464
Royalties	4,554	4,010	3,908	5,563	6,990	6,060
Gross Profit	25,410	22,368	21,633	33,947	37,343	35,636
Operating Profit	23,180	20,771	20,944	32,865	36,463	34,607
Other income	7,177	4,558	1,539	11,697	5,782	3,166
Other charges	1,728	1,383	1,545	2,026	2,055	1,868
Finance cost	3,774	2,212	260	5,549	2,679	1,815
Profit before tax	24,855	21,734	20,678	36,987	37,511	34,090
Taxation	7,983	5,359	7,296	11,052	10,058	9,161
Profit after tax	16,872	16,376	13,382	25,935	27,452	24,930

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
PPE	7,747	7,057	6,129	6,220	5,954	5,744
Other LT assets	22,313	25,264	24,389	23,357	21,575	20,658
Non-Current Assets	30,060	32,320	30,518	29,577	27,529	26,402
Current assets	51,429	59,276	63,826	88,477	97,147	105,816
Total Assets	81,490	91,596	94,344	118,054	124,676	132,217
Non-Current liabilities	17,902	20,888	20,852	25,866	25,512	27,150
Current liabilities	25,517	30,441	34,130	41,125	41,938	42,781
Total Liabilities	43,419	51,329	54,982	66,990	67,450	69,931
Equity	38,071	40,267	39,362	51,063	57,226	62,286
Total Equity & liabilities	81,490	91,596	94,344	118,054	124,676	132,217

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net Income	16,872	16,376	13,382	25,935	27,452	24,930
Non-cash Charges	5,698	5,503	4,803	6,057	5,854	4,838
Operating Cash flows	22,734	17,372	25,698	31,107	32,033	30,338
FCFF	24,287	11,080	23,002	30,718	27,533	27,910
Net borrowings	-	-	-	-	-	-
FCFE	24,287	11,080	23,002	30,718	27,533	27,910
Net change in cash	14,229	919	10,892	20,150	7,771	9,452
Closing cash	35,761	36,681	47,572	67,723	75,494	84,946

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net