

Pakistan Oilfields Limited
Result Review

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

Pakistan Research

POL: 3QFY23 earnings clocked in at PKR 57.2/share, up 147% YoY

- POL announced its 3QFY23 financial results today, wherein the company reported an all-time high quarterly EPS of PKR 57.2, up 147% YoY compared to an EPS of PKR 23.2 in SPLY. This increase in earnings mainly emanates from 32% YoY PKR devaluation (PKR 261/USD) and significant increase in other income. This takes 9MFY23 earnings to PKR 107.8/share, up 75% YoY.
- The company's net sales increased by 19% YoY and settled at PKR 15.8bn during 3Q. Despite significant currency devaluation, revenue growth was restricted due to production decline. POL's oil/gas production contracted by 2%/5% YoY owing to lower flows from Adhi, Jhandial and TAL block.
- Other income increased by 586% YoY to PKR 14.3bn during 3Q. This increase could mainly be attributed to huge exchange gains and higher return on cash deposits.
- Effective tax rate clocked in at 10% during 3Q as compared to 30% in SPLY, providing further support to the earnings growth.
- On sequential basis, POL posted earnings growth of 173% QoQ, mainly on account of higher topline owing to PKR devaluation and higher other income.
- We have a 'BUY' stance on POL. Our Dec-23 price target (PT) of PKR 564/share provides an upside of 38% along with a dividend yield of 25.5%.

Key Data

PSX Ticker	POL
Target Price (PKR)	564
Current Price (PKR)	408
Upside/(Downside) (%)	+ 38%
Dividend Yield (%)	25.5%
Total Return (%)	+ 64%
12-month High (PKR)	460
12-month Low (PKR)	340
Outstanding Shares (mn)	284
Market Cap (PKR mn)	115,727
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Sales net	13,315	15,874	19%	37,002	45,871	24%
Field Expenditures	2,403	2,800	17%	6,595	7,993	21%
Royalties	1,425	1,807	27%	3,913	5,139	31%
Gross Profit	8,899	10,483	18%	24,504	30,450	24%
Other income	2,088	14,330	586%	6,806	23,069	239%
Other operating expenses	593	503	-15%	1,549	1,657	7%
Finance costs	788	5,436	590%	3,185	7,785	144%
Profit before Tax	9,425	17,945	90%	25,715	37,489	46%
Taxation	2,852	1,710	-40%	8,219	6,901	-16%
Net income (loss)	6,573	16,235	147%	17,496	30,588	75%
EPS	23.2	57.2	147%	61.6	107.8	75%
DPS	0.0	0.0		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	137.3	107.6	93.0
EPS Growth	-2.9%	-18.3%	93.8%	50.2%	-21.6%	-13.6%
DPS	50.0	50.0	70.0	104.0	84.0	77.0
PER	7.1	8.6	4.5	3.0	3.8	4.4
Dividend Yield	12.3%	12.3%	17.2%	25.5%	20.6%	18.9%
EV/EBITDA	3.2	2.8	1.3	0.6	0.4	0.2
P/B	2.9	2.9	2.3	1.9	1.7	1.6
ROE	41.8%	33.6%	57.4%	69.8%	47.8%	38.0%

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 564/share provides an upside of 38% along with a dividend yield of 25.5%. 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	63,896	66,541	61,823
Field Expenditures	13,537	12,929	15,242	22,377	19,057	20,907
Royalties	4,010	3,908	5,563	7,785	7,503	6,496
Gross Profit	22,368	21,633	33,947	43,462	44,285	39,091
Operating Profit	20,771	20,944	32,865	35,936	42,136	36,508
Other income	4,558	1,539	11,697	27,810	6,933	4,753
Other charges	1,383	1,545	2,026	2,743	2,355	1,996
Finance cost	2,212	260	5,549	10,933	3,729	2,835
Profit before tax	21,734	20,678	36,987	50,070	42,985	36,430
Taxation	5,359	7,296	11,052	11,109	12,437	10,038
Profit after tax	16,376	13,382	25,935	38,961	30,549	26,392

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	21,949	21,601	21,558
Non-Current Assets	32,320	30,518	29,577	27,903	27,344	27,141
Current assets	59,276	63,826	88,477	117,927	121,611	131,242
Total Assets	91,596	94,344	118,054	145,829	148,955	158,383
Non-Current liabilities	20,888	20,852	25,866	40,592	33,752	37,720
Current liabilities	30,441	34,130	41,125	44,734	47,995	48,919
Total Liabilities	51,329	54,982	66,990	85,326	81,747	86,639
Equity	40,267	39,362	51,063	60,504	67,208	71,743
Total Equity & liabilities	91,596	94,344	118,054	145,829	148,955	158,383

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	16,376	13,382	25,935	38,961	30,549	26,392
Non-cash Charges	5,503	4,803	6,057	5,900	5,046	4,734
Operating Cash flows	17,372	25,698	31,107	38,103	37,064	31,657
FCFF	11,080	23,002	30,718	48,264	25,379	30,721
Net borrowings	-	-	-	-	-	-
FCFE	11,080	23,002	30,718	48,264	25,379	30,721
Net change in cash	919	10,892	20,150	25,112	4,387	10,805
Closing cash	36,681	47,572	67,723	92,835	97,222	108,027

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

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