

Pakistan Oilfields Limited
Result Review

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

Pakistan Research

FY22 EPS clocks in at PKR 91.4, up 94% YoY, DPS at PKR 50.0

- POL announced its FY22 financial results today, where the company posted an EPS of PKR 91.4, up 94% YoY. This increase in earnings is mainly on account of 1) 71% YoY increase in international crude oil price, 2) 10% YoY PKR devaluation and, 3) lower tax expense. Along with the result, POL announce a final dividend of PKR 50.0/share, taking the cumulative dividend for FY22 to PKR 70.0/share.
- Net sales clocked in at PKR 51.9bn, up 44% YoY compared to PKR 36.0bn in SPLY. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to 14% YoY and 10% YoY decline in POL's oil and gas production, respectively.
- Exploration cost went up by 77% YoY to PKR 877mn due to higher geological and geophysical cost during the year.
- Other income increased to PKR 11.7bn, up 6.6x as compared to PKR 1.5bn during SPLY, owing to exchange gains on financial assets booked during the year. On the contrary, finance cost surged by 20.4x to PKR 5.5bn on account of exchange losses.
- POL's effective tax rate during FY22 remained 29.9%, compared to 35.3% during SPLY. Contrary to our understanding, lower tax expense suggests that the company has not booked additional tax expense related to super tax during the year.
- On a quarterly basis, POL posted an EPS of PKR 29.7, up 122% YoY. This earnings growth is mainly due to 113% YoY higher oil prices in PKR terms. Furthermore, POL's effective tax rate remained 25.1% in 4Q, compared to 34.6% in SPLY which also inflated the earnings.
- We have a 'BUY' stance on POL. Our Dec-22 price target (PT) of PKR 528/share provides an upside of 26% along with a dividend yield of 16.7%.

Key Data

PSX Ticker	POL
Target Price (PKR)	528
Current Price (PKR)	420
Upside/(Downside) (%)	+ 26%
Dividend Yield (%)	16.7%
Total Return (%)	+ 42%
12-month High (PKR)	428
12-month Low (PKR)	328
Outstanding Shares (mn)	284
Market Cap (PKR mn)	119,338
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Sales net	8,587	14,943	74%	36,042	51,945	44%
Field Expenditures	1,350	2,520	87%	8,289	9,115	10%
Royalties	989	1,650	67%	3,908	5,563	42%
Gross Profit	5,855	9,443	61%	21,633	33,947	57%
Other income	1,366	4,892	258%	1,539	11,697	660%
Other operating expenses	377	478	27%	1,545	2,026	31%
Finance costs	682	2,363	247%	260	5,549	2037%
Profit before Tax	5,822	11,272	94%	20,678	36,987	79%
Taxation	2,016	2,833	41%	7,296	11,052	51%
Net income (loss)	3,806	8,439	122%	13,382	25,935	94%
EPS	13.41	29.73	122%	47.14	91.37	94%
DPS	30.00	50.00		50.00	70.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	59.4	57.7	47.1	91.4	76.6	66.7
EPS Growth	23.5%	-2.9%	-18.3%	93.8%	-16.2%	-12.9%
DPS	50.0	50.0	50.0	70.0	60.0	53.0
PER	8.0	8.2	10.2	4.9	5.9	6.8
Dividend Yield	11.9%	11.9%	11.9%	16.7%	14.3%	12.6%
EV/EBITDA	3.2	3.6	3.1	2.0	1.8	1.9
P/B	3.1	3.0	3.0	2.6	2.4	2.2
ROE	42.2%	37.3%	29.2%	57.1%	42.4%	33.8%

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 Dec-22 price target (PT) of PKR 528/share provides an upside of 26% along with a dividend yield of 16.7%. 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	50,656	46,249
Field Expenditures	17,875	13,537	12,929	15,227	13,539	13,806
Royalties	4,554	4,010	3,908	5,563	5,629	4,828
Gross Profit	25,410	22,368	21,633	33,947	33,984	30,104
Operating Profit	23,180	20,771	20,944	32,865	32,979	28,915
Other income	7,177	4,558	1,539	11,697	2,854	2,945
Other charges	1,728	1,383	1,545	2,026	1,817	1,571
Finance cost	3,774	2,212	260	5,549	849	1,611
Profit before tax	24,855	21,734	20,678	36,987	33,168	28,678
Taxation	7,983	5,359	7,296	11,052	11,425	9,750
Profit after tax	16,872	16,376	13,382	25,935	21,743	18,928

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	7,747	7,057	6,129	5,174	4,402	3,774
Other LT assets	22,313	25,264	24,389	22,451	21,601	21,498
Non-Current Assets	30,060	32,320	30,518	27,625	26,003	25,271
Current assets	51,429	59,276	63,826	74,348	82,176	88,407
Total Assets	81,490	91,596	94,344	101,973	108,178	113,678
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	45,427	50,139	54,022
Total Equity & liabilities	81,490	91,596	94,344	101,973	108,178	113,678

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	16,872	16,376	13,382	25,935	21,743	18,928
Non-cash Charges	5,698	5,503	4,803	5,755	4,534	3,721
Operating Cash flows	22,734	17,372	25,698	19,367	25,866	24,347
FCFF	24,287	11,080	23,002	17,063	23,403	21,888
Net borrowings	-	-	-	-	-	-
FCFE	24,287	11,080	23,002	17,063	23,403	21,888
Net change in cash	14,229	919	10,892	(392)	7,643	7,939
Closing cash	35,761	36,681	47,572	47,181	54,824	62,762

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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