



Today's Daily

■ POL: Dividend yield it is!

We re-initiate coverage on Pakistan OilFields Limited (POL) with a TP of PkR437/sh. POL is currently trading at an implied oil price of US\$67/bbl against our assumption of US\$55/bbl. On the flip side, the scrip offers attractive div. yields of 10.74%/12.4% for FY18F/19F. While the company forms an integral part of the Attock group, supplementing it in its downstream operations, we flag that: 1) over-reliance on TAL block (60.16% of revenues as of FY17E), 2) lack of growth in exploration expenses (down from PkR1.6bn in FY13 to ~PkR580mn in FY17E) and 3) a relatively shorter reserve life of 8.6 years leads to our conviction on the stock being fundamentally over-valued. Although the company (along with its JV partners) has signed supplemental agreements with GoP for conversion of PCAs to the petroleum policy 2012, the potential impact in our view is PkR3.5/5.0/sh for FY18F/19F as the top-line remains oil-heavy (~44% of revenues), as against its peers which have a more balanced revenue stream. At current levels, we have a REDUCE stance on the stock.

KSE100 - Index

Current	41,974.22
Previous	42,641.75
Chg.	-1.57%

Mkt Cap. (PkRbn/US\$m)

Current	8,773 / 83.24
Previous	8,873 / 84.19
Chg.	-1.12%

Daily Turnover (mn)

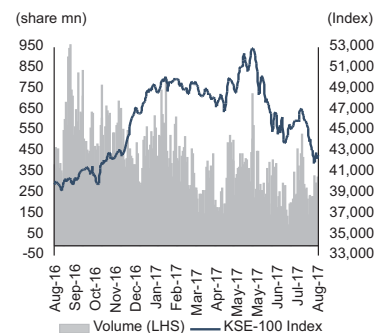
Current	103.18
Previous	177.02
Chg.	-41.7%

Value Traded (PkRmn/US\$m)

Current	5,706 / 54.14
Previous	9,379 / 88.99
Chg.	-39.2%

News and Views

- PM Shahid Khaqan Abbasi is scheduled to convene his first meeting of Economic Coordination Council (ECC) today (Tuesday), where key agenda items include: 1) deregulation of petroleum products pricing, 2) financing of 1.2bcfd RLNG gas pipeline from Karachi-Lahore, 3) marketing of EURO-IV & V HSD and 4) reallocation of natural gas committed by the PPP government.
- The National Tariff Commission has decided to impose definitive anti-dumping duty ranging from 3.25-11.35% on polyester filament yarn imported from the exporting countries (i.e. China and Malaysia).
- Sapphire Wind Power Company has announced its plan to set up the country's biggest wind power project with a production capacity of 150MW in Gharo- Jhimpir, Sindh. In this regard, the company entered into an agreement with General Electric (GE) for supply of 103 wind turbines.



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Overly dependent on TAL Block: The company, despite having 7 exploration licenses, is heavily reliant on the flows from TAL block operated by MOL Pakistan where it has a working interest of 25%. Digging deeper, ~70% of its oil based revenues are extracted from TAL block with Makori East and Maramzai as the top contributors. Moreover, ~84% of the Natural Gas revenues are contributed by fields from TAL block. To top it up, exploration efforts in other blocks have offered little respite, as evident from the recent efforts in Ikhlas and Gurgalot blocks where work is going on since a long time without any substantial outcome. Heightened dependence on TAL comes with another cost: POL has the highest lifting cost amongst its peers at US\$4.64/mmboe, majorly because of its operations in Zone I and II as against its peers which also operate in Zone III.

Lack of Exploration efforts: Exploration expenses (excluding cost of dry wells) have fallen from PkR1.57bn in FY13 to ~PkR580mn in FY17E, largely due to previous exploration efforts being futile with Sadrial well spudded in 2012 in Ikhlas block which was later suspended and similar was the case with MGL-1 well in Margala block. Not to forget that none of the mentioned blocks is in Zone III which automatically elevates the associated costs. The company now endeavors to conduct seismic operations in Ratana and Pindori to improve output from the respective fields.

Relatively Shorter reserve life: POL's reserve life of ~8.6yrs is relatively shorter than its peers (where PPL and OGDC both have reserve lives of >12 years). Specifically, its oil reserves have a life of 8.1years and gas reserves would last for 9.2years given the current production trends. Even the recent discovery in Makori Deep has reported reserves of 3BCF gas

KATS Code	POL
Bloomberg Code	POL.PA
Price PkR	479.53
Market Cap (PkRmn)	113,430.86
Market Cap (US\$m)	1,080.29
Shares (mn)	236.55
3M High (PkR)	529.05
3M Low (PkR)	429.75
1Yr High (PkR)	559.58
1Yr Low (PkR)	351.01
3M Avg Turnover '000	199.11
1 Yr Avg Turnover '000	381.28
3M Avg DT Value (PkR'000)	95,285.97
3M Avg DT Value (US\$'000)	907.49
1Yr Avg DT Value (PkR'000)	175,477.57
1Yr Avg DT Value (US\$'000)	1,671.21



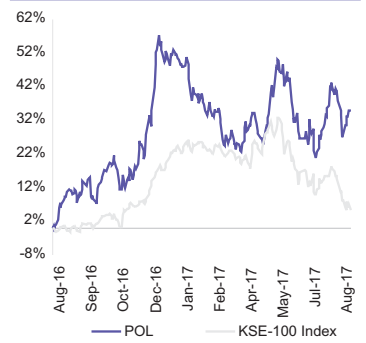
and 12mn bbls of oil, quite less than other discoveries in the same region. This poses a serious threat to the company's future operations as it plays an essential part in the supply chain of its sister concern refineries.

Signing of supplemental agreements provides little breather: As mentioned in its financial reports, the company has signed supplemental agreements with GoP for conversion of the existing PCAs to the recent Petroleum Policy 2012. As per our understanding, major fields that would get revised pricing with a major impact include Mamikhel, Maramzai, Makori East and Mardankhel. We have already included the revised pricing in our assumptions from FY18 with a bottom-line impact of PKR3.5/5/sh for FY18F/19F. Nonetheless, Natural Gas constitutes ~36% of the revenue pie diminishing the enormous impact the revision could have had.

Key Risks: Key risks to our investment case includes: 1) downward movement in oil prices eroding the company's revenue stream, 2) PKR appreciation against US\$ as the top-line is US\$ denominated, and 3) further delays in the implementation of revision in petroleum policy.

Investment perspective: With Intl. oil prices hovering in the range of US\$45-55/bbl and our long-term forecast of US\$55/bbl, upside potential remains limited in our view. Our model also incorporates a 4% PKR depreciation against the greenback going forward. While a relatively shorter reserve life entails inherent risks, the stock is an excellent dividend play with FY18F/19F div. yields at 10.74%/12.4%. We arrive at a NAV based target price of PKR437/sh, implying a REDUCE stance.

POL vs. KSE100 Index



Source: Co. Reports & AKD Research



POL: Valuations

Year End Jun-30	FY14A	FY15A	FY16A	FY17E	FY18F
EPS (PkR)	54.48	35.76	30.58	41.84	60.84
EPS Growth	19.0%	-34.4%	-14.5%	36.8%	45.4%
PER (x)	8.94	13.62	15.92	11.64	8.00
BVS (PkR)	148.8	136.8	127.5	134.3	152.2
P/BVS(x)	3.3	3.6	3.8	3.6	3.2
CFS (PkR)	90.2	64.7	56.3	71.0	75.4
P/CFS (x)	5.4	7.5	8.6	6.9	6.5
ROE	38%	25%	23%	32%	42%
ROA	23%	15%	13%	18%	24%
DPS (PkR)	52.5	40.0	35.0	42.0	51.5
Dividend yield	11%	8%	7.2%	8.6%	10.6%
Payout Ratio	96%	112%	114%	100%	85%

Source: Co. Reports & AKD Research

POL: Income Statement

(PkR mn)	FY14A	FY15A	FY16A	FY17E	FY18F
Net sales	35,540	30,881	24,848	27,456	35,223
Cost of sales	16,530	14,614	13,605	13,779	15,262
Gross profit	19,010	16,267	11,243	13,677	19,961
Operating Expenses	1,832	4,868	2,192	725	1,771
Operating Profit	17,178	11,399	9,051	12,952	18,191
Financial charges	654	987	1,022	780	808
WPPF	1,140	486	560	876	910
Other Income - net	1,823	1,563	1,411	1,503	1,841
Profit before tax	17,207	11,489	8,880	12,798	18,314
Taxation	4,319	3,031	1,646	2,902	3,921
Net Profit	12,887	8,459	7,234	9,896	14,392

Source: Co. Reports & AKD Research

POL: Balance Sheet

(PkRmn)	FY14A	FY15A	FY16A	FY17E	FY18F
LCurrent assets	21,099	20,245	20,176	19,932	23,462
Long term assets	36,770	35,199	35,541	37,300	38,647
Total assets	57,869	55,444	55,717	57,233	62,109
Current Liabilities	8,334	8,536	9,096	8,994	9,650
Long-term Loans	14,339	14,544	16,468	16,468	16,468
Total Liabilities	22,673	23,080	25,564	25,462	26,118
Paid up capital	2,365	2,365	2,365	2,365	2,365
Reserves & Unappropriated	32,829	29,997	27,786	29,404	33,624
Total Equity	35,196	32,365	30,154	31,771	35,992
Total equity and liabilities	57,869	55,444	55,717	57,233	62,110

Source: Co. Reports & AKD Research

POL: Cash flows

(PkR mn)	FY14A	FY15A	FY16A	FY17E	FY18F
Cashflow from operations	21,326	15,306	13,321	16,796	17,841
Cashflow from Inv Activities	(6,323)	(3,207)	(3,948)	(6,753)	(5,702)
Cashflow from Fin Activities	(10,765)	(11,322)	(9,568)	(8,279)	(10,171)
Net change in cash	4,238	776	(195)	1,765	1,968
Beginning cash balance	7,249	10,826	10,614	10,764	12,529
Ending cash balance	11,487	11,603	10,419	12,529	14,496

Source: Co. Reports & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
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