



Today's Daily

■ POL: Expanding the asset base?

With an asset base comprising 12 leases and possessing 9 exploration licenses, POL has lagged behind its peers in terms of exploration activities, spudding only 9 wells in the past 10 years. However, the company is broadening its asset base as it recently added Jhandial to its production portfolio while drilling another exploratory well at Khaur. Moreover, the company is also conducting seismic surveys at Balkassar lease while processing previous data of another field as well. In this regard, addition of another producing well can further reduce its reliance on the JV fields (84% currently) while augmenting its top-line at the same time. With regards to its 1HFY18 financial performance, the company is expected to post net profits of PkR7.68bn (EPS: PkR32.45), higher by 65% YoY as it is likely to benefit from 1) 20.8%YoY intl. oil price increase, 2) Jhandial being added to the production facility and 3) the re-pricing of TAL block fields. However, with lack of information regarding the reserve size at Jhandial and lower than expected flows from the same, our NAV based TP of PkR572/sh assumes 9.2mn bbls of oil and 117BCF of gas reserves in the said field. We highlight that any deviation in the official numbers can alter our TP accordingly.

KSE100 - Index

Current	43,358.97
Previous	42,939.68
Chg.	0.98%

Mkt Cap. (PkRbn/US\$b)

Current	8,954 / 81.00
Previous	8,880 / 80.34
Chg.	0.83%

Daily Turnover (mn)

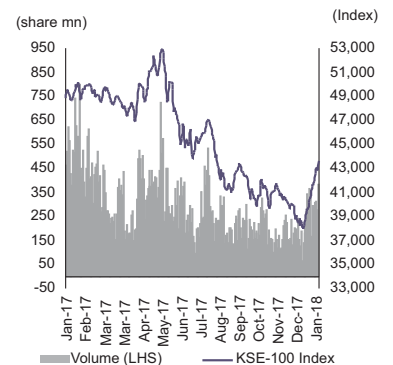
Current	151.34
Previous	160.88
Chg.	-5.9%

Value Traded (PkRmn/US\$m)

Current	6,646 / 60.12
Previous	7,222 / 65.34
Chg.	-8.0%

News and Views

- PM Shahid Khaqan Abbasi has yesterday announced that a one-time tax amnesty scheme on offshore assets will be offered to the public. This will serve as an opportunity for people with off-shore assets to bring their assets into the financial system with a small amount being paid to the GoP.
- NAB has summoned Punjab CM Shehbaz Sharif on Jan 22'18 regarding the Ashiana housing scheme inquiry. The said scheme was an initiative of the Punjab government, aiming to provide economical and adequate residential facilities to low-income households.
- According to data published by SBP, total Foreign Investment reported an uptick in inflows mostly due to the Bond Issue at the start of the month. With increase of 582%YoY, total Foreign Investment has surged to US\$2.67bn against US\$390mn.



M. Daniyal Kanani
daniyal.kanani@akdsecurities.net
111-253-111 Ext:602

Important disclosures, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.



POL: Expanding the asset base?

With an asset base comprising 12 leases and possessing 9 exploration licenses, POL has lagged behind its peers in terms of exploration activities, spudding only 9 wells in the past 10 years. However, the company is broadening its asset base as it recently added Jhandial to its production portfolio while drilling another exploratory well at Khaur. Moreover, the company is also conducting seismic surveys at Balkassar lease while processing previous data of another field as well. In this regard, addition of another producing well can further reduce its reliance on the JV fields (84% currently) while augmenting its top-line at the same time. With regards to its 1HFY18 financial performance, the company is expected to post net profits of PkR7.68bn (EPS: PkR32.45), higher by 65% YoY as it is likely to benefit from 1) 20.8%YoY intl. oil price increase, 2) Jhandial being added to the production facility and 3) the re-pricing of TAL block fields. However, with lack of information regarding the reserve size at Jhandial and lower than expected flows from the same, our NAV based TP of PkR572/sh assumes 9.2mn bbls of oil and 117BCF of gas reserves in the said field. We highlight that any deviation in the official numbers can alter our TP accordingly.

POL: 1HFY18F Result Preview

(PkRmn)	1HFY18F	1HFY17	YoY	2QFY18	QoQ
Net Sales	18,539	12,805	44.78%	11,298	56.03%
Royalty	1,748	1,074	62.78%	1,085	63.81%
Operating Exp.	4,194	4,117	1.87%	2,221	12.55%
Excise & develop. surcharge	154	130	18.56%	84	18.79%
Amortization & decommission.	1,110	1,426	-22.17%	591	13.92%
Gross Profit	11,333	6,058	87.07%	7,317	82.21%
Exploration & Prospecting Exp.	532	190	179.46%	259	-4.80%
General and Admin Exp.	77	71	8.16%	39	4.26%
Operating Profit	10,724	5,797	85.00%	7,019	89.40%
Other Income	993	948	4.77%	744	198.92%
WPPF and WWF	736	383	91.89%	491	101.23%
EBIT	10,982	6,361	72.63%	7,272	95.97%
Finance Cost	450	390	15.38%	262	39.31%
Profit before Tax	10,532	5,972	76.37%	7,010	98.99%
Taxation	2,852	1,316	116.74%	1,858	86.89%
Profit after Tax	7,680	4,656	64.96%	5,152	103.75%
EPS@ 236.5mn shares	32.45	19.67	64.96%	21.77	103.75%

Source: Co. Report & AKD Research

1HFY18 Preview: POL will announce its 1HFY18 results on Jan 23'18, where we estimate the company to post earnings of PkR7.68bn (EPS: PkR32.45), higher by 65%YoY. Heavy jump in profitability is expected from from 1) 20.8% higher intl. oil prices, 2) tie-in of Jhandial with current flows of ~1,300bpd of oil & ~9.2MMCFD of gas and 3) a one-time impact of PkR5.99/sh emanating from the re-pricing of TAL block fields. Overall hydrocarbon production during 1HFY18 is expected to be recorded at ~4.0MMBOE with an 8% increment in LPG production especially from

Exploratory Wells by POL

	Exploratory Wells Spudded	Block	Fields	Successful Discovery
FY08	3	Kirthar south (2)	Meyal uchri	1
FY09	1	Ikhlas	-	0
FY10	0	-	-	0
FY11	0	-	-	0
FY12	2	Ikhlas	Dhulian	0
FY13	0	-	-	0
FY14	0	-	-	0
FY15	1	-	Balkassar	0
FY16	0	-	-	0
FY17	1	Ikhlas	-	1
FY18TD	1	Khaur North	-	0

Source: PPIS & AKD Research



Jhandial taking the top-line to PkR18.5bn vs. PkR12.8bn in 1HFY17. Exploration expenses are expected to reach PkR532mn as the company pursues geological and seismic surveys in its operated lease (Balkassar) and a non-operated block (Gurgalot with 20% share) while amortization costs can decline by 22%YoY as no significant development wells were added during the period. On sequential basis, earnings are expected to climb 104% on the back of 19% jump in intl. oil prices, connection of Jhandial and the one-off impact from price revision.

Diversifying the asset base? Pakistan Oilfields Limited has historically remained less aggressive in its exploration efforts. As per facts, it has spudded only 9 exploratory wells in the past 10 years with a success ratio of 22.2% only, far below than Pakistan's average of 35.3%. In this regard, its latest discovery of Jhandial proved to be of much importance, as highlighted in our Daily "Jhandial is a Golden Goose" dated Oct 12'17. That said, the company still relies heavily on its JV fields, with the number slightly going down by 2ppts to 84% after the tie-in of Jhandial. However, the company seems to be diversifying its asset base where another exploratory well is going on in its lease: Khaur North, along with Siesmic surveys in Balkassar. Successful discoveries in the region can provide additional boost to its top-line. But on the flip-side, realized oil prices can further slip as the crude will have to be transported all the way to southern ports for export as refineries face a tough time in the wake of furnace oil glut in the country.

Investment Perspective: Citing inadequate information regarding the reserve size at Jhandial, we assume 9.2mnbbbls of oil and 117BCF gas reserves at Jhandial, and hence arrive at a TP of PkR572/sh. This also includes adjustments with regards to lower than expected flows from Jhandial. Despite this, the stock provides a decent D/Y of 9.4/9.7% in FY18/19F. Here we do highlight that prolonged curtailment of production from certain northern fields can negatively impact POL as a significant portion of its flows emanate from TAL block fields in the north.



Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.