



AKD Securities Limited

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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)

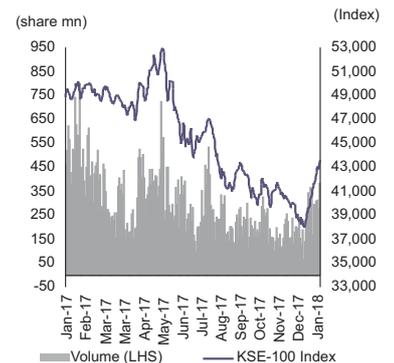
Current 6,646 / 60.12
Previous 7,222 / 65.34
Chg. -8.0%

AKD Daily

Thursday, Jan 18, 2018

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.



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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.



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