

## PAKISTAN OIL & GAS

### POL & APL: 2QFY19 Result Previews

- POL will announce its 1HFY18 results on Jan 22nd, where we estimate the company to post earnings of Pkr8.81bn (EPS: Pkr31.02), higher by 69%YoY, where the jump in profitability is a factor of higher oil prices, Pkr devaluation and modest production. On a sequential basis, 2QFY19E NPAT is expected at Pkr4.94bn (EPS:Pkr17.4) rising 28%QoQ, where macro tailwinds mask a modest operational backdrop.
- For APL, we expect NPAT for 2QFY19 to amount to Pkr873mn (EPS:Pkr8.77) -44%QoQ/-41%YoY pulled lower by inventory losses (forecasted at Pkr323mn), and severe dip in FO volumes (-47%QoQ), while rising income from bank deposits fail to support profitability.
- Both scrips are expected to announce interim payouts, with APL/POL DPS expected at Pkr10/25/sh, while bonus issuance as a means of non-cash disbursements cannot be ruled out.

**Earnings climb from macro tailwinds and low-base:** POL will announce its 1HFY18 results on Jan 22nd, where we estimate the company to post earnings of Pkr8.81bn (EPS: Pkr31.02), higher by 69%YoY. Heavy jump in profitability is expected from: 1) 24%YoY higher oil prices pushing revenues up 64%YoY, 2) aggressive devaluations witnessed during the outgoing period, particularly during 2QFY19 where the US\$ jumped 11%QoQ and 3) modest shifts in oil/gas production during the period (+2/-4%YoY). YoY growth can also be attributed to the low-base arising from a Pkr3.01bn (Pkr10.6/sh) write down POL booked in 2QFY18 due to the absence of enhanced gas pricing (post conversion to PP12) for production from three Tal block fields. Exploration expenses are expected to be modest in the absence of dry wells while seismic activity remains slated for 2HFY19, keeping exploration expenses on a growth trajectory going forward. On a sequential basis, 2QFY19E NPAT is expected at Pkr4.94bn (EPS:Pkr17.4) rising 28%QoQ, where macro tailwinds mask a modest operational backdrop. Accompanying the results an interim payout of Pkr25/sh is expected.

#### Result Estimate

EPS (Pkr)	2QFY19E	1QFY19	QoQ%	YoY%	1HFY19E	YoY%
POL	17.4	13.62	27.8%	121.7%	31.02	69%

Source: AKD Research

**Southbound volumes and price hurt profitability:** For APL, we expect NPAT for 1QFY19 to amount to Pkr873mn (EPS:Pkr8.77) -44%QoQ/-41%YoY pulled lower by inventory losses (forecasted at Pkr323mn), and severe dip in FO volumes (-47%QoQ), while rising income from bank deposits fail to support profitability. This takes 1HFY18E to Pkr2.42bn lower (-21%YoY, EPS of Pkr24.32/sh), resting on higher below the line expenses (expected to taper off as planned storage expansions come online), significant hike in input costs and losses across all fuel segments (FO in particular). Looking ahead, growth from retail outlet expansion (adding 30 pumps in CY18 taking total to ~630 pumps) and storage facilities are expected to supplement earnings in the medium term. Encouragingly, the company has held onto market share in an otherwise tepid FO demand environment, losing only 5% of volumes YoY for 2QFY19, where we see APL's conservative CAPEX and strong geographical footprint as key to holding onto market share. Accompanying the results, a half year interim payout of Pkr10/sh is expected. At a revised DCF based TP of Pkr480/sh total upside of 19% is implied.

#### Result Estimate

EPS (Pkr)	2QFY19E	1QFY19	QoQ%	YoY%	1HFY19E	YoY%
APL	8.77	15.55	-44%	-41%	24.32	-21%

Source: AKD Research

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#### Volumetric Snapshot

	2QFY19	QoQ%	YoY%
HSFO	72,508	-47%	-46%
Kero	5,980	2%	1%
HSD	207,189	6%	3%
Gasoline 87 RON	173,302	-7%	22%

Source: OCAC & AKD Research



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Buy	> 19% expected total return (Rf: 13% + Rp: 6%)
Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

### Old Rating Definitions (Discontinued)

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
Not Rated	No investment opinion or recommendation

## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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