

Pakistan Oilfields Ltd

Big find warrants major estimates upgrade; reiterate "OW"

Thursday, October 12, 2017

POL- Overweight

Target Price: PKR 601.00

Current Price: PKR 526.46

POL Performance

	3M	6M	12M
Absolute %	20	23%	36%
Relative to KSE %	32%	39%	38%
Bloomberg	POL.PA		
Reuters	PKOL.KA		
MCAP (USD mn)	1,189		
12M ADT (USD mn)	1.6		
Shares Outstanding (mn)	237		

Source: PSX, BMA Research

POL-Valuation Snapshot (PKRmn)

	FY17A	FY18E	FY19E	FY20E
Revenue	27,280	39,249	43,778	41,994
% change	10%	44%	12%	-4%
PAT	9,679	14,236	16,948	16,301
% change	34%	47%	19%	-4%
EPS (PRs)	40.92	60.18	71.65	68.91
P/E (x)	12.86	8.74	7.34	7.63
DPS (PRs)	40.00	50.00	58.00	59.00
D/Y (%)	8%	10%	11%	11%
P/B (x)	3.95	3.43	3.01	2.83
ROE (%)	31%	39%	41%	37%
EV/EBITDA	5.20	3.40	3.00	3.16

Source: Company Accounts, BMA Research

Muhammad Fawad Khan

fawad.khan@bmacapital.com

+9221-111-262-111 Ext: 2061

REP-005



www.jamapunji.pk

- We have revised up our earnings estimates for Pakistan Oilfields Ltd (POL) by 16/25% for FY18/19/20E based on recent discovery in POL-operated block. Our new DCF-based TP for POL comes to PKR601 (+21%).
- We see more juice on the table for POL's stock post 20% price performance in 3-mths. Market's current valuation does not fully reflect the potential of new find, in our view. We reiterate Overweight stance on the stock.
- Jhandial should go a long way in addressing market's dual concerns on low reserve life and concentration while providing a sizeable upside in earnings and valuation to the company.
- Beyond Jhandial, favorable newsflow on production and exploration in Tal block may dominate in late 2Q/early 3Q and may help in sustaining the stock price performance.
- Key risks are: (i) delay in monetization in Jhandial find, (ii) stability in production in Tal block, and (iii) exploration write-off.

Estimates lifted on major find: We have revised up our earnings estimates for Pakistan Oilfields Ltd (POL) by 16-25% for FY18/19/20E based on (i) recent discovery in POL-operated area, and (ii) incorporation of production from Tolanj find in Tal block. We have also taken this opportunity to incorporate new 2P reserves on Tal block. Our new DCF-based TP for POL comes to PKR601/sh.

Jhandial Find- Turning out to be a life savior! Market appears to have downplayed the significance of POL's latest major find primarily due to investors' concerns on short-reserves life of the company (seven years before Jhandial) and high concentration of company's earnings. Market's pessimism is also supported by lack of any major find by POL in its operated block since Dec'08. Jhandial discovery (2160 bpd of oil, 19mmcf of gas on choke size of 32/64") should go a long way in addressing market concerns associated with the company, in our view. Given discovery flow rate and available data on wellhead pressure, reservoir thickness and spread, Jhandial appears to be a significant find. Additionally, the discovery is surrounded by other major finds in the area (Dhurnal and Pariwali in South with 60/9mnbbl respective original recoverable reserves). A simple arithmetic on the discovery suggests the reserves from the well may range between 6-7mmbbl of oil and 0.08-0.1tcf of gas, which are part of our earnings estimates. Just to highlight, our estimates are significantly below the numbers recently reported in the media (23mmbbl of oil, 0.29tcf of gas). Future appraisal drilling on the discovery and production behavior from the discovery well remains crucial to firm up outer fringes of the reservoir and estimate the size of the discovery. Based on discovery flow and our reserve estimates, Jhandial is expected to contribute 20-22% to company's production and 20% of its reserves while company's reserves life is expected to jump from 7 years to 11 years. On standalone basis, Jhandial is expected to contribute 18-19% to company's revenue and 18-19% to earnings (PKR12-13/sh) once it commences production. Encouragingly, production from Jhandial find is likely to commence within a month.

More triggers on the horizon: Beyond Jhandial, we eye favorable news flow on production and exploration in Tal block in late 2Q/early 3Q and may help in sustaining the stock price performance. Specifically, at least four appraisal and development wells in Mardankhel and Tolanj finds are in shut-in state as installation of processing plants is currently underway. Taken together, both finds may add 2500-3000bpd of oil and 40mmcf of gas by start of 3Q. Further production may materialize from completion of development drilling in Makori East VI. On exploration front, drilling in Tolanj East appears promising as the operator, MOL, has already made two finds in the surrounding areas.

Stellar growth seen in FY18: We estimate upto 47% earnings growth in POL in FY18 which is likely to be driven by (i) 29% jump in production due to new finds in Jhandial and full-year impact of commencement of production from Mardankhel, (ii) higher benchmark prices for gas (USD50/bbl vs USD40/bbl) in FY18 (Just to recall, gas prices in Pakistan carries six month lagged impact), and (iii) rupee devaluation.

We highlight three areas which can offer potential upside to our base estimates: (i) upside in oil price in case of increased geo-political risk associated with US-Iran relationship (every USD5/bbl upside in oil price assumption leads to 12% upside in earnings for FY18E/19E, (ii) potential steeper rupee devaluation and POL's ability to provide currency hedge (PKR1/USD higher assumption provides 1% upside in earnings, our base case assumption is 3.5% devaluation), (iii) higher than expected production flows from Jhandial and other discoveries.

Investment thesis: We see more juice on the table for POL's stock post 20% price performance in last 3-mth. Market's current valuation does not fully reflect the potential of new find, in our view.

Key risks to our call: Three major risks to investment thesis are;

- **Delay in monetization in Jhandial find:** POL expects to commence production from the well within this month.
- **Stability in production in Tal block:** This is particularly important given reserves on some of the finds have been revised down.
- **Exploration write off:** POL targets to test deep potential in Meyal, Khaur and Pindori in FY18/FY19E which may lead to higher write-off. Drilling for deep potential has yielded not-so encouraging results, particularly in Pindori field.

Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Limited from publicly available information and sources that BMA Capital Management Limited believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Limited gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Limited has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Limited. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Limited and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Limited uses a three tier rating system: i) Overweight, ii) Market-weight and iii) Underweight (new rating system effective Feb 29'16) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

Rating definitions

Overweight	Total stock return > expected market rddeturn + 2%
Market-weight	Expected market return \pm 2%
Underweight	Total stock return < expected market return - 2%

*Total stock return = capital gain + dividend yield

Old rating system (discarded effective Feb 29'16)

Buy	>20% upside potential
Accumulate	>=5% to <=20% upside potential
Hold	<5% to >5% potential
Reduce	<=-5% to >=-20% downside potential
Sell	<-20% downside potential

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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