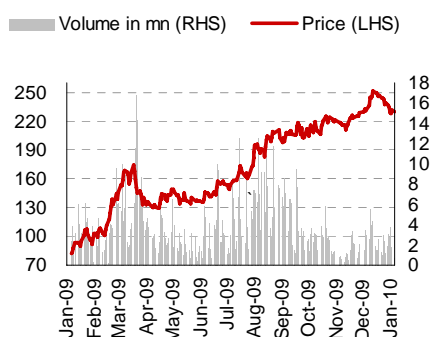


In Focus

E&P

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Price and Volume Graph



POL: 1HFY10E EPS of PKR13.24

- POL is scheduled to hold its board meeting to discuss 1HFY10 results on Tuesday, February 9, 2010; we project the company to post a PAT of PKR3,132mn (EPS: PKR13.24) compared to a PAT of PKR3,866mn (EPS: PKR16.34) for 1HFY09
- For 2QFY10, we expect the bottomline to clock in at PKR1,707mn (EPS: PKR7.21) compared to a PAT of PKR1,605mn (EPS: PKR6.79), a growth of 6% YoY; more importantly the outgoing quarter is expected to register a QoQ growth of 20% on the back of production enhancement from TAL Block and higher oil prices
- Alongside the results, the company may also declare a cash dividend of PKR6/share while the possibility of a bonus issue can not be ruled out
- The company is expected to have booked exploration expenditure of PKR500mn for 2QFY10, a jump of 8.4x from 1QFY10 yet significantly lower on YoY basis
- We continue to advise a BUY stance on the stock with a NAV based fair value of PKR282/share

Pakistan Oilfields (POL) is scheduled to hold its board meeting to discuss 1HFY10 results on Tuesday, February 9, 2010 while we expect it to announce its results on Wednesday, February 10, 2010. We project the company to post a PAT of PKR3,132mn (EPS: PKR13.24) compared to a PAT of PKR3,866mn (EPS: PKR16.34) for 1HFY09. The YoY decline of 19% is expected to come on the back of depressed oil & gas production (during 1Q) and lower oil prices.

For 2QFY10, we expect the bottomline to clock in at PKR1,707mn (EPS: PKR7.21) compared to a PAT of PKR1,605mn (EPS: PKR6.79), a growth of 6% YoY. More importantly, the outgoing quarter is expected to register a QoQ growth of 20% on the back of production enhancement from TAL Block and higher oil prices.

Alongside the results, the company may also declare a cash dividend of PKR6/share while the possibility of a bonus issue can not be ruled out.

Financial Summary

PKR'mn	2QFY10E	2QFY09A	▲chg	1HFY10E	1HFY09A	▲chg
Net Sales	4,315	3,782	14%	7,490	8,653	-13%
Operating Costs	949	854	11%	1,703	1,579	8%
Excise duty and develop. surcharge	43	36	19%	77	71	8%
Royalty	397	271	47%	675	745	-9%
Amortisation costs	302	169	78%	529	433	22%
Gross Profit	2,624	2,452	7%	4,506	5,825	-23%
Exploration Costs	500	1,495	-67%	553	1,748	-68%
Admin Expenses	13	11	23%	24	28	-15%
Finance Costs	150	60	151%	249	382	-35%
Other Charges	140	138	1%	278	351	-21%
Other Operating Income	425	1,112	-62%	709	1,410	-50%
PBT	2,245	1,861	21%	4,112	4,726	-13%
PAT	1,707	1,605	6%	3,132	3,866	-19%
EPS (PKR)	7.21	6.79	6%	13.24	16.34	-19%

Source: BMA Research

In Focus

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Topline projected to post QoQ growth of 36% for 2QFY10

Based on provisional production data from PPIS, we estimate POL to have registered oil and gas production of 3,948bpd (-4%) and 47mmcf (+14% YoY), respectively for 1HFY10. However Arab-light crude oil prices averaged at USD73/bbl (down 13% YoY) during the period, translating into our estimated decline of 13% for the topline.

For 2QFY10, however, we expect the company to post a strong rebound of 36% QoQ and 14% YoY in its topline, which is to be largely fuelled by better production numbers, higher oil prices and depreciating rupee. According to provisional numbers, outgoing quarter is estimated to have recorded QoQ production growth of 55% in gas and 15% in oil on the back of production enhancement from Manzalai (TAL Block, POL stake: 21%) and modest recovery in oil production from Pindori.

Exploration cost expected to be up 8x QoQ: Not a concern though..

During the outgoing quarter, exploration work at Makori West-1 (TAL Block, POL ownership stake: 21%) was plugged and suspended by its operator MOL. As a result, the possibility of POL expensing out the exploration expenditure (during the outgoing quarter) can not be ruled out. We project the company to book exploration expenditure of PKR500mn for 2QFY10, a jump of 8.4x from 1QFY10 yet significantly lower than the amount of PKR1.5bn booked in the same quarter last year.

While these expectations have already dented the sentiments on the stock, it needs to be highlighted that exploration expenditure is part and parcel of an aggressive exploration program and points only towards the possibility of discoveries and production enhancements going forward. Nonetheless, with POL being a relatively smaller player when compared to its peers (OGDC, PPL, BP), the head may continue to be volatile as the company pursues its exploration programs.

Dividend Income: Always an added feature for POL

We expect POL to have booked 'other operating income' of PKR709mn (down 50% YoY) for 1HFY10 and PKR425mn (down 62% YoY) for 2QFY10. While returns on the company's cash balance and short term investments continue to provide a sustainable flow, most of the other income is expected to be contributed by its associate companies: PKR12.5/share on its 20mn shares of National Refinery (to be booked in 2QFY10) and PKR15/share on its 4mn shares of Attock Petroleum (booked in 1QFY10).

The decline on YoY basis is projected to come on the back of lower payouts from the associate companies as well as lower cash and short term balances with POL.

BUY Maintained; Production growth story still alive!

While most of the expected production enhancement from Manzalai was witnessed by Dec09, it needs to be pointed out the full quarterly impact of higher production numbers will be seen in 3QFY10. Moreover, start of production from Mamikhel and Maramzai in FY11 will add further to the company's topline and profitability.

We expect POL to clock in oil and gas production growth of 25% and 120%+ during the period FY08-FY10. While we had removed the stock from high conviction ideas list at PKR245/share, we continue to advise a BUY stance with a NAV based fair value of PKR282/share.

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