

Pakistan Oilfields (POL)

2QFY18 EPS Rs9.0, -13% YoY (-19% QoQ)

Cash Dividend Rs17.5/sh

Below Expectations

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17

 CFA Society
Pakistan



www.jamapunji.pk Best Local Brokerage House 2015-16

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Revenue reversal impacts earnings

POL: Consolidated Financial Highlights						
Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	YoY
Net Sales	6,230	7,269	-14%	-16%	13,644	4%
Operating Costs	2,361	2,233	6%	11%	4,482	3%
Excise Duty	76	68	13%	9%	147	13%
Royalty	428	576	-26%	-35%	1,091	2%
Amort. of D&DE	978	865	13%	91%	1,490	5%
Gross Profit	2,386	3,528	-32%	-41%	6,435	5%
Exploration Costs	468	126	272%	72%	740	289%
Admin Expenses	57	40	42%	34%	100	18%
Finance Cost	487	195	150%	159%	675	73%
Other Charges	149	215	-30%	-39%	395	2%
Other Income	705	234	201%	184%	954	140%
Share in profits of associates	511	113	353%	442%	605	-3%
Profit before Tax	2,440	3,298	-26%	-33%	6,083	0%
Taxation	300	819	-63%	-70%	1,300	-3%
Profit After Tax	2,140	2,479	-14%	-19%	4,782	0%
Attributable to:						
Owners of Holding Company	2,134	2,466	-13%	-19%	4,770	0%
Non-Controlling Interest	6	14	-57%	-13%	13	-44%
EPS	9.0	10.4			20.2	

Source: PSX, Topline Research

- POL reported lower than expected earnings of Rs9/sh, down 13% YoY during the outgoing quarter mainly owing to lower than anticipated revenues, down 14% YoY. The company in its footnotes (16.1) has reported that on prudent basis, they booked revenue reversal of Rs2.2bn due to enhanced gas price (incentive due to conversion from Petroleum Policy 1997 to Petroleum Policy 2012 for the period Jul 1, 2015-Jun 30, 2017) which the company previously accounted for. Further, the company has also reversed the higher gas price impact of Rs0.8bn for 1HFY18.

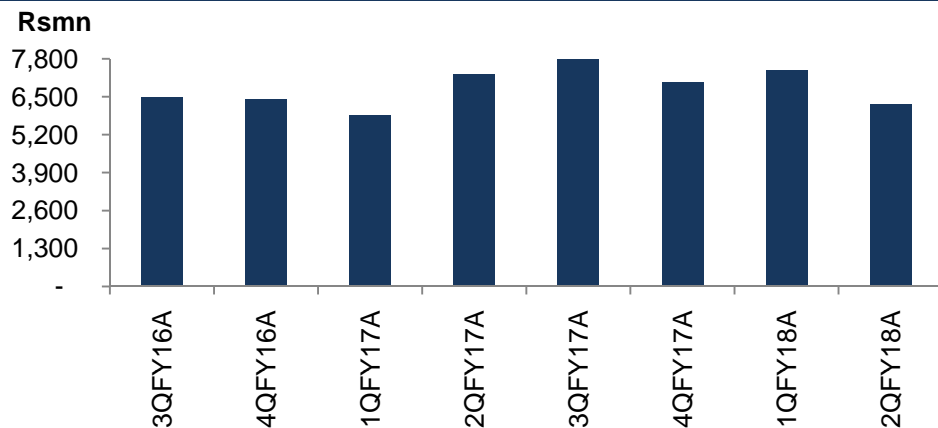
Revenue reversal impacts earnings

- Revenue amounting to Rs3.4bn in respect to price conversion of TAL Block Petroleum Concession Agreement (PCA) which was expected to be booked by the company during the outgoing quarter was also not recognized. To sum up, revenue on account of enhanced gas price incentive amounts to Rs6.4bn till Dec 31, 2017.
- The reversal was made because the Govt. (as per the notice served to the company on Dec 27, 2017) through amendments in Petroleum Policy 2012, has imposed Windfall Levy on Oil (WLO) which affects the already executed Supplemental Agreement.
- In this regard, the impact of WLO on conversion of TAL block till date is Rs13.8bn, which as per the company, will be challenged in the court of law as WLO was not initially part of the Supplemental Agreement. Hence, revenues arising from higher gas pricing incentive are now being reversed and will be accounted for upon resolution of this matter.
- While we await further clarity in this regard, POL is of the legal opinion that the already executed agreement cannot be changed unilaterally.
- POL's exploration charges in 2QFY18 were up 3.7x to Rs487mn mainly owing to higher geological & geophysical cost.
- We flag 1) inability to receive higher gas price incentive on TAL Block owing to WLO dispute, 2) lower than anticipated international oil prices, 2) significant exploration and development cost and 3) unexpected field shutdown as key risks for POL.

POL: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	45.8	54.5	34.8	42.6	50.2
Earnings Growth	-9%	19%	-36%	23%	18%
PE at Rs628.2	13.7	11.5	18.1	14.7	12.5
Dividend Yield	7%	8%	6%	6%	6%
ROE	33%	38%	25%	30%	33%
PBV	4.5	4.4	4.6	4.4	4.1

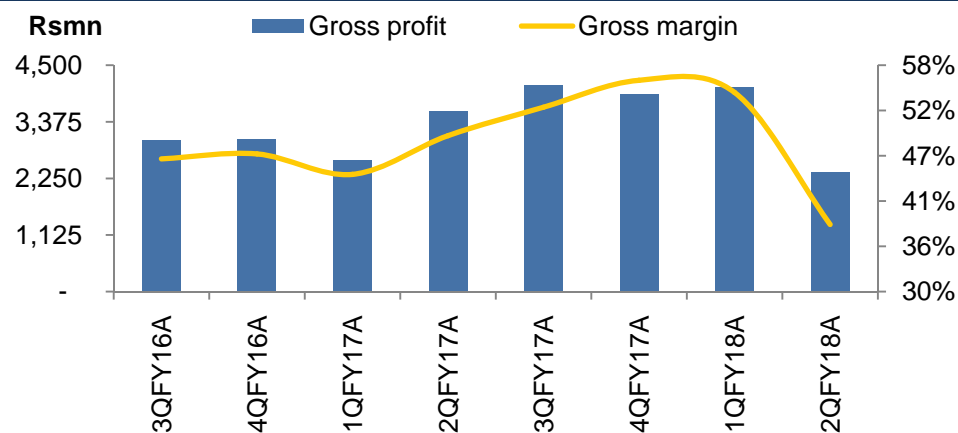
Source: Company Accounts, Topline Research

POL: Quarterly Sales



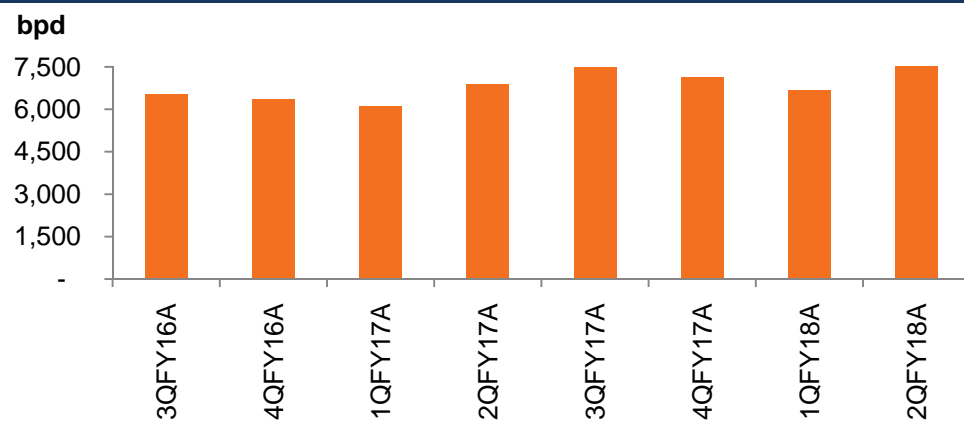
Source: Company Accounts, Topline Research

POL: Quarterly Gross Profit & Gross Margins



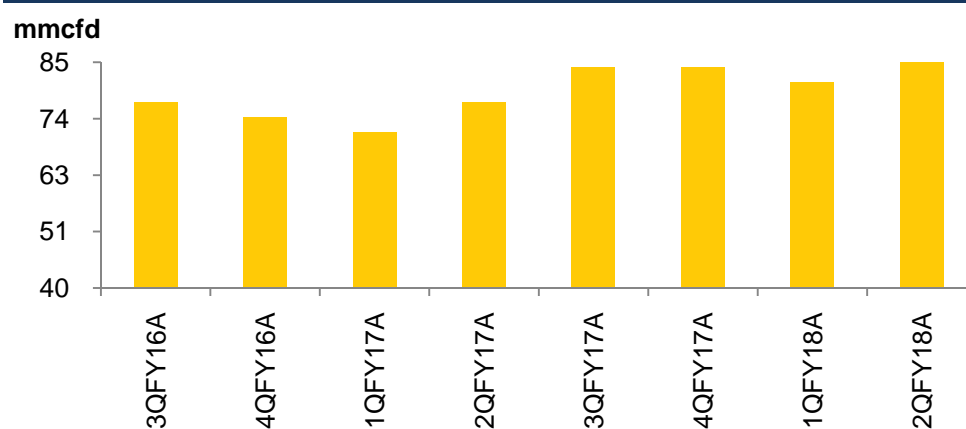
Source: Company Accounts, Topline Research

POL: Quarterly Oil Production



Source: Company Accounts, Topline Research

POL: Quarterly Gas Production



Source: Company Accounts, Topline Research

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