

## POL

## 9MFY21 Result Review: BUY Stance Maintained



Equity Research | Oil &amp; Gas Exploration Companies | Tuesday, 27 April, 2021

POL has announced its 9MFY21 result where it posted profit after tax of Rs9.6bn (EPS: Rs33.74) as compared to profit after tax of Rs13.9bn (EPS: Rs49.13) in same period last year, down by 31.3% YoY.

The company has posted the revenue of Rs27.7bn against Rs32.5bn in SPLY, recording a negative growth of 14.8% YoY. We note that this decline is attributed to the drop in the production of oil and gas and the appreciation of PKR against USD.

Gross margin has been squeezed to 57% as compared to 59.2% in SPLY owing to higher operating cost. Exploration and admin costs have been declined by 84.3% YoY and 4.2% YoY respectively during the year.

Other income has declined by 95.3% YoY to Rs173mn as compared to Rs3.7bn during SPLY owing to lower exchange gains.

Lastly, higher effective taxation of 35.5% as compared to 25.2% during SPLY caused the bottom line to plunge further.

POL is currently trading at a FY21E PE of 8.66x. Furthermore, the scrip is also trading at FY21E PB of 2.45x which provides a discount of 19% relative to its 5-year average of 3.17x. Going forward, we have a **BUY** stance on the scrip with a DCF based Dec-21 TP of Rs 400 which provides an upside potential of 9%. Furthermore, it also offers an attractive dividend yield of 10% which makes a total return of 19%.

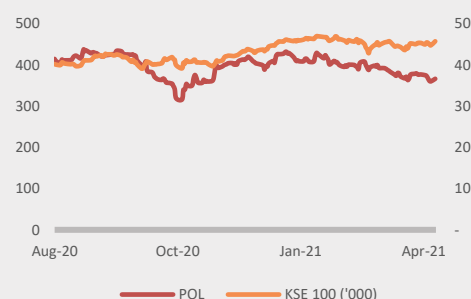
Rupees' millions	3QFY21	3QFY20	YoY	9MFY21	9MFY20	YoY
Net Sales	9,531	10,737	11.2% ▼	27,663	32,450	14.8% ▼
Operating Cost	-2,438	-2,660	8.3% ▼	-6,939	-7,709	10.0% ▼
<b>Gross Profit</b>	<b>5,462</b>	<b>6,267</b>	<b>12.8% ▼</b>	<b>15,778</b>	<b>19,199</b>	<b>17.8% ▼</b>
Exploration Cost	-72	-362	80.2% ▼	-181	-1,152	84.3% ▼
Administrative Expenses	-50	-71	29.5% ▼	-168	-175	4.2% ▼
<b>Operating Profit</b>	<b>4,919</b>	<b>5,407</b>	<b>9.0% ▼</b>	<b>14,262</b>	<b>16,633</b>	<b>14.3% ▼</b>
Other Income	-372	2,523	114.7% ▼	173	3,698	95.3% ▼
Finance costs	320	-1,240	125.8% ▼	422	-1,688	125.0% ▼
Profit Before Taxation	4,867	6,690	27.3% ▼	14,856	18,643	20.3% ▼
Taxation	-1,940	-1,311	47.9% ▲	-5,280	-4,696	12.5% ▲
<b>Profit After Taxation</b>	<b>2,927</b>	<b>5,379</b>	<b>45.6% ▼</b>	<b>9,576</b>	<b>13,947</b>	<b>31.3% ▼</b>
<b>Earnings Per Share</b>	<b>10.31</b>	<b>18.95</b>	<b>45.6% ▼</b>	<b>33.74</b>	<b>49.13</b>	<b>31.3% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>20.00</b>	<b>20.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Gross Margin	57.3%	58.4%	1.1% ▼	57.0%	59.2%	2.1% ▼
Exploration Cost to Sales	-0.8%	-3.4%	2.6% ▼	-0.7%	-3.6%	2.9% ▼
Admin Cost to Sales	-0.5%	-0.7%	0.1% ▼	-0.6%	-0.5%	0.1% ▲
Other Income to Sales	-3.9%	23.5%	19.6% ▼	0.6%	11.4%	10.8% ▼
Effective Taxation	-39.9%	-19.6%	20.3% ▲	-35.5%	-25.2%	10.4% ▲
<b>Net Margin</b>	<b>30.7%</b>	<b>50.1%</b>	<b>19.4% ▼</b>	<b>34.6%</b>	<b>43.0%</b>	<b>8.4% ▼</b>

Source: ACPL Research, Company Financials

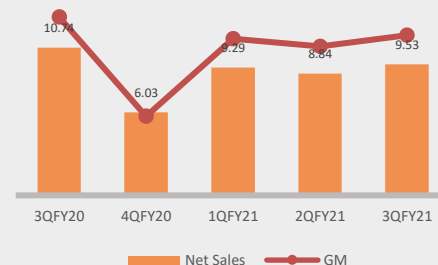
## Key Statistics

Symbol	POL
TP - Dec 21	400
LDCP	366
Upside (%)	9
Free Float ('mn)	130
Market Cap. (Rs.'mn)	103,891

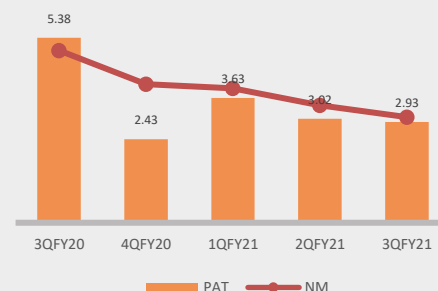
## POL vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	30,881	24,848	27,280	32,665	43,977	38,475	36,636	40,367	37,573
Operating Cost	-8,726	-8,872	-8,384	-8,456	-10,393	-9,408	-9,219	-9,219	-9,219
Excise Duty	-251	-265	-272	-308	-309	-279	-266	-293	-273
Royalty	-2,610	-2,021	-2,344	-3,778	-4,554	-4,010	-3,818	-4,207	-3,916
Amortization of development and decommissioning costs	-3,027	-2,448	-2,209	-2,987	-3,312	-2,410	-2,441	-2,742	-2,999
<b>Gross profit</b>	<b>16,267</b>	<b>11,243</b>	<b>14,072</b>	<b>17,136</b>	<b>25,410</b>	<b>22,368</b>	<b>20,892</b>	<b>23,905</b>	<b>21,166</b>
Exploration Cost	-4,729	-2,052	-1,468	-2,990	-2,049	-1,405	-238	-262	-244
Administrative Expenses	-140	-140	-109	-170	-181	-192	-238	-262	-244
Other Charges	-486	-560	-809	-967	-1,728	-1,383	-1,546	-1,703	-1,586
<b>Profit from operations</b>	<b>10,913</b>	<b>8,491</b>	<b>11,685</b>	<b>13,009</b>	<b>21,452</b>	<b>19,388</b>	<b>18,869</b>	<b>21,677</b>	<b>19,092</b>
Other income	1,563	1,411	1,473	3,262	7,177	4,558	299	469	621
Finance cost	-987	-1,022	-746	-1,919	-3,774	-2,212	-566	-566	-566
<b>Profit before income tax</b>	<b>11,489</b>	<b>8,880</b>	<b>12,412</b>	<b>14,353</b>	<b>24,855</b>	<b>21,734</b>	<b>18,602</b>	<b>21,580</b>	<b>19,146</b>
Income tax expense	-3,031	-1,646	-2,734	-2,969	-7,983	-5,359	-6,611	-7,670	-6,805
<b>Profit for the year</b>	<b>8,459</b>	<b>7,234</b>	<b>9,679</b>	<b>11,384</b>	<b>16,872</b>	<b>16,376</b>	<b>11,991</b>	<b>13,910</b>	<b>12,342</b>
<b>EPS</b>	<b>29.80</b>	<b>25.48</b>	<b>34.10</b>	<b>40.10</b>	<b>59.44</b>	<b>57.69</b>	<b>42.24</b>	<b>49.01</b>	<b>43.48</b>
<b>EBITDA</b>	<b>9,489</b>	<b>6,913</b>	<b>10,128</b>	<b>11,377</b>	<b>19,953</b>	<b>17,964</b>	<b>17,516</b>	<b>20,392</b>	<b>17,871</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	-13.1%	-19.5%	9.8%	19.7%	34.6%	-12.5%	-4.8%	10.2%	-6.9%
Operating Cost	14.7%	1.7%	-5.5%	0.9%	22.9%	-9.5%	-2.0%	0.0%	0.0%
Excise Duty	-11.1%	5.7%	2.6%	13.3%	0.5%	-9.8%	-4.8%	10.2%	-6.9%
Royalty	-24.1%	-22.6%	16.0%	61.2%	20.5%	-11.9%	-4.8%	10.2%	-6.9%
Amortization of development and decommissioning costs	-41.8%	-19.1%	-9.7%	35.2%	10.9%	-27.2%	1.3%	12.3%	9.4%
<b>Gross profit</b>	<b>-14.4%</b>	<b>-30.9%</b>	<b>25.2%</b>	<b>21.8%</b>	<b>48.3%</b>	<b>-12.0%</b>	<b>-6.6%</b>	<b>14.4%</b>	<b>-11.5%</b>
Exploration Cost	176.6%	-56.6%	-28.4%	103.6%	-31.5%	-31.4%	-83.1%	10.2%	-6.9%
Administrative Expenses	14.3%	0.0%	-21.9%	55.6%	6.9%	6.1%	23.8%	10.2%	-6.9%
Other Charges	-57.4%	15.4%	44.4%	19.5%	78.8%	-20.0%	11.8%	10.2%	-6.9%
<b>Profit from operations</b>	<b>-32.0%</b>	<b>-22.2%</b>	<b>37.6%</b>	<b>11.3%</b>	<b>64.9%</b>	<b>-9.6%</b>	<b>-2.7%</b>	<b>14.9%</b>	<b>-11.9%</b>
Other income	-14.3%	-9.7%	4.4%	121.5%	120.0%	-36.5%	-93.4%	56.9%	32.3%
Finance cost	50.9%	3.5%	-27.0%	157.1%	96.6%	-41.4%	-74.4%	0.0%	0.0%
<b>Profit before income tax</b>	<b>-33.2%</b>	<b>-22.7%</b>	<b>39.8%</b>	<b>15.6%</b>	<b>73.2%</b>	<b>-12.6%</b>	<b>-14.4%</b>	<b>16.0%</b>	<b>-11.3%</b>
Income tax expense	-29.8%	-45.7%	66.1%	8.6%	168.9%	-32.9%	23.4%	16.0%	-11.3%
<b>Profit for the year</b>	<b>-34.4%</b>	<b>-14.5%</b>	<b>33.8%</b>	<b>17.6%</b>	<b>48.2%</b>	<b>-2.9%</b>	<b>-26.8%</b>	<b>16.0%</b>	<b>-11.3%</b>
<b>EPS</b>	<b>-34.4%</b>	<b>-14.5%</b>	<b>33.8%</b>	<b>17.6%</b>	<b>48.2%</b>	<b>-2.9%</b>	<b>-26.8%</b>	<b>16.0%</b>	<b>-11.3%</b>
<b>EBITDA</b>	<b>-35.7%</b>	<b>-27.2%</b>	<b>46.5%</b>	<b>12.3%</b>	<b>75.4%</b>	<b>-10.0%</b>	<b>-2.5%</b>	<b>16.4%</b>	<b>-12.4%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GP Margin	%	52.68	45.25	51.58	52.46	57.78	58.14	57.02	59.22	56.33
NP Margin	%	27.39	29.11	35.48	34.85	38.36	42.56	32.73	34.46	32.85
OP Margin	%	35.34	34.17	42.83	39.83	48.78	50.39	51.50	53.70	50.81
ROE	%	26.14	23.99	30.73	34.74	44.32	40.67	28.25	31.58	26.89
ROA	%	15.26	12.98	16.79	16.22	20.70	17.88	11.28	12.17	10.24
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Current	x	2.37	2.22	2.22	1.72	2.02	1.95	2.41	2.70	2.79
Quick	x	1.65	1.55	1.70	1.42	1.75	1.46	1.93	2.19	2.30
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Receivables Days		41.10	49.00	44.06	92.10	73.94	72.42	72.42	72.42	72.42
Payables Days		121.78	148.91	159.27	375.30	379.98	530.49	542.69	507.39	532.25
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
DPS		40.00	35.00	40.00	42.50	50.00	50.00	36.61	42.47	37.68
Div. Yield	%	10.93	9.56	10.93	11.61	13.66	13.66	10.00	11.60	10.30
Dividend Cover	x	0.74	0.73	0.85	0.94	1.19	1.15	1.15	1.15	1.15
Retention	%	-34.23	-37.34	-17.31	-5.97	15.88	13.33	13.33	13.33	13.33
Payout	%	134.23	137.34	117.31	105.97	84.12	86.67	86.67	86.67	86.67
No. of Shares	('m)	283.86	283.86	283.86	283.86	283.86	283.86	283.86	283.86	283.86
EPS		29.80	25.48	34.10	40.10	59.44	57.69	42.24	49.01	43.48
BVPS		114.02	106.23	110.96	115.44	134.12	141.86	149.55	155.18	161.71
P/E	x	12.28	14.36	10.73	9.13	6.16	6.34	8.66	7.47	8.42
Sales per share		108.79	87.54	96.11	115.08	154.93	135.54	129.07	142.21	132.37
P/BV	x	3.21	3.45	3.30	3.17	2.73	2.58	2.45	2.36	2.26
P/S	x	3.36	4.18	3.81	3.18	2.36	2.70	2.84	2.57	2.77
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	11.06	8.31	15.66	6.78	5.68	8.77	33.33	38.29	33.72

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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