

POL has announced its 2QFY21 result where it posted profit after tax of Rs6.6bn (EPS: Rs23.42) as compared to profit after tax of Rs8.6bn (EPS: Rs30.19) in same period last year, down by 22.4% YoY.

The company has posted the revenue of Rs18.13bn against Rs21.7bn in SPLY, recording a negative growth of 16.5% YoY. We note that this decline is attributed to the decline in international crude oil prices and the drop in the production of oil and gas.

Gross margin has been squeezed to 56.9% as compared to 59.6% in SPLY owing to higher operating cost. Exploration cost has been declined by 86.2% YoY while the admin costs has been increased by 13% YoY.

Other income has declined by 53.6% YoY to Rs545mn as compared to Rs1.2bn during SPLY owing to lower exchange gains.

Lastly, higher effective taxation of 33.4% as compared to 28.3% during SPLY caused the bottom line to plunge further.

POL is currently trading at a FY21E PE of 8.72x. Furthermore, the scrip is also trading at FY21E PB of 2.77x which provides a discount of 19% relative to its 5-year average of 3.59x. Going forward, we have a **BUY** stance on the scrip with a DCF based Dec-21 TP of Rs 450 which provides an upside potential of 9%. Furthermore, it also offers an attractive dividend yield of 10% which makes a total return of 19%.

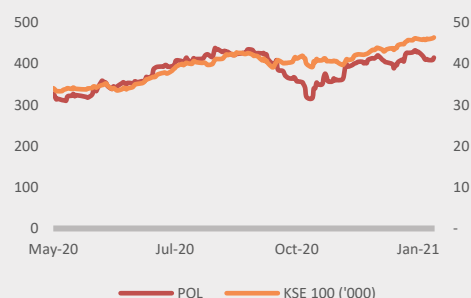
Rupees' millions	2QFY21	2QFY20	YoY	1HFY21	1HFY20	YoY
Net Sales	8,843	11,461	22.8% ▼	18,132	21,712	16.5% ▼
Operating Cost	-2,150	-2,798	23.2% ▼	-4,501	-5,049	10.9% ▼
<b>Gross Profit</b>	<b>5,011</b>	<b>6,637</b>	<b>24.5% ▼</b>	<b>10,316</b>	<b>12,932</b>	<b>20.2% ▼</b>
Exploration Cost	-34	-415	91.9% ▼	-109	-791	86.2% ▼
Administrative Expenses	-61	-49	22.4% ▲	-118	-104	13.0% ▲
<b>Operating Profit</b>	<b>4,525</b>	<b>5,762</b>	<b>21.5% ▼</b>	<b>9,342</b>	<b>11,226</b>	<b>16.8% ▼</b>
Other Income	242	707	65.8% ▼	545	1,174	53.6% ▼
Finance costs	188	-309	160.9% ▼	102	-448	122.9% ▼
Profit Before Taxation	4,955	6,160	19.6% ▼	9,990	11,953	16.4% ▼
Taxation	-1,935	-1,600	20.9% ▲	-3,341	-3,384	1.3% ▼
<b>Profit After Taxation</b>	<b>3,021</b>	<b>4,560</b>	<b>33.8% ▼</b>	<b>6,649</b>	<b>8,568</b>	<b>22.4% ▼</b>
<b>Earnings Per Share</b>	<b>10.64</b>	<b>16.07</b>	<b>33.8% ▼</b>	<b>23.42</b>	<b>30.19</b>	<b>22.4% ▼</b>
<b>Dividend</b>	<b>20.00</b>	<b>20.00</b>		<b>20.00</b>	<b>20.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Closing Period: 10 Feb 2021 - 17 Feb 2021						
Gross Margin	56.7%	57.9%	1.2% ▼	56.9%	59.6%	2.7% ▼
Exploration Cost to Sales	-0.4%	-3.6%	3.2% ▼	-0.6%	-3.6%	3.0% ▼
Admin Cost to Sales	-0.7%	-0.4%	0.3% ▲	-0.6%	-0.5%	0.2% ▲
Other Income to Sales	2.7%	6.2%	3.4% ▼	3.0%	5.4%	2.4% ▼
Effective Taxation	-39.0%	-26.0%	13.1% ▲	-33.4%	-28.3%	5.1% ▲
<b>Net Margin</b>	<b>34.2%</b>	<b>39.8%</b>	<b>5.6% ▼</b>	<b>36.7%</b>	<b>39.5%</b>	<b>2.8% ▼</b>

Source: ACPL Research, Company Financials

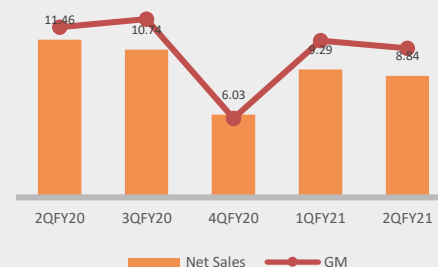
## Key Statistics

Symbol	POL
TP - Dec 21	450
LDCP	414
Upside (%)	9
Free Float ('mn)	130
Market Cap. (Rs.'mn)	117,530

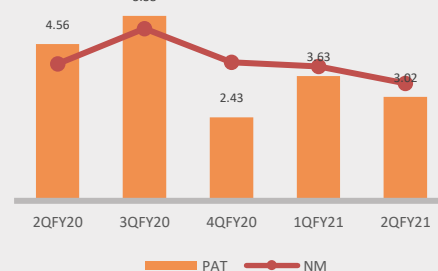
## POL vs KSE 100



## 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	37,569	41,746	39,138
Operating Cost	-8,726	-8,872	-8,384	-8,456	-10,393	-9,408	-9,408	-9,408	-9,408
Excise Duty	-251	-265	-272	-308	-309	-279	-272	-303	-284
Royalty	-2,610	-2,021	-2,344	-3,778	-4,554	-4,010	-3,916	-4,351	-4,079
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>21,532</b>	<b>24,942</b>	<b>22,369</b>
Exploration Cost	-4,729	-2,052	-1,468	-2,990	-2,049	-1,405	-225	-250	-235
Administrative Expenses	-140	-140	-109	-170	-181	-192	-244	-271	-254
Other Charges	-486	-560	-809	-967	-1,728	-1,383	-1,350	-1,501	-1,407
<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>19,712</b>	<b>22,920</b>	<b>20,472</b>
Other income	1,563	1,411	1,473	3,262	7,177	4,558	1,010	1,202	1,341
Finance cost	-987	-1,022	-746	-1,919	-3,774	-2,212	-306	-306	-306
<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>20,416</b>	<b>23,817</b>	<b>21,508</b>
Income tax expense	-3,031	-1,646	-2,734	-2,969	-7,983	-5,359	-6,941	-8,098	-7,313
<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>13,475</b>	<b>15,719</b>	<b>14,195</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>47.47</b>	<b>55.38</b>	<b>50.01</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>18,359</b>	<b>21,635</b>	<b>19,251</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%	-2.4%	11.1%	-6.2%
Operating Cost	14.7%	1.7%	-5.5%	0.9%	22.9%	-9.5%	0.0%	0.0%	0.0%
Excise Duty	-11.1%	5.7%	2.6%	13.3%	0.5%	-9.8%	-2.4%	11.1%	-6.2%
Royalty	-24.1%	-22.6%	16.0%	61.2%	20.5%	-11.9%	-2.4%	11.1%	-6.2%
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>-3.7%</b>	<b>15.8%</b>	<b>-10.3%</b>
Exploration Cost	176.6%	-56.6%	-28.4%	103.6%	-31.5%	-31.4%	-84.0%	11.1%	-6.2%
Administrative Expenses	14.3%	0.0%	-21.9%	55.6%	6.9%	6.1%	27.0%	11.1%	-6.2%
Other Charges	-57.4%	15.4%	44.4%	19.5%	78.8%	-20.0%	-2.4%	11.1%	-6.2%
<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>1.7%</b>	<b>16.3%</b>	<b>-10.7%</b>
Other income	-14.3%	-9.7%	4.4%	121.5%	120.0%	-36.5%	-77.8%	19.1%	11.6%
Finance cost	50.9%	3.5%	-27.0%	157.1%	96.6%	-41.4%	-86.2%	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>-6.1%</b>	<b>16.7%</b>	<b>-9.7%</b>
Income tax expense	-29.8%	-45.7%	66.1%	8.6%	168.9%	-32.9%	29.5%	16.7%	-9.7%
<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>-17.7%</b>	<b>16.7%</b>	<b>-9.7%</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>-17.7%</b>	<b>16.7%</b>	<b>-9.7%</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>2.2%</b>	<b>17.8%</b>	<b>-11.0%</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	57.31	59.75	57.15
NP Margin	%	27.39	29.11	35.48	34.85	38.36	42.56	35.87	37.65	36.27
OP Margin	%	35.34	34.17	42.83	39.83	48.78	50.39	52.47	54.90	52.31
ROE	%	26.14	23.99	30.73	34.74	44.32	40.67	31.74	35.53	30.63
ROA	%	15.26	12.98	16.79	16.22	20.70	17.88	12.50	13.47	11.51
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	2.46	2.74	2.83
Quick	x	1.65	1.55	1.70	1.42	1.75	1.46	1.97	2.23	2.35
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	532.80	506.29	531.56
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
DPS		40.00	35.00	40.00	42.50	50.00	50.00	41.14	47.99	43.34
Div. Yield	%	9.66	8.45	9.66	10.26	12.08	12.08	9.94	11.59	10.47
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	47.47	55.38	50.01
BVPS		114.02	106.23	110.96	115.44	134.12	141.86	149.55	155.88	163.26
P/E	x	13.89	16.25	12.14	10.32	6.97	7.18	8.72	7.48	8.28
Sales per share		108.79	87.54	96.11	115.08	154.93	135.54	132.35	147.07	137.88
P/BV	x	3.63	3.90	3.73	3.59	3.09	2.92	2.77	2.66	2.54
P/S	x	3.81	4.73	4.31	3.60	2.67	3.05	3.13	2.82	3.00
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	64.46	74.95	66.94

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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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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