

POL

1QFY21 Result Review: BUY Stance Maintained

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POL has announced its 1QFY21 result where it posted profit after tax of Rs3.6bn (EPS: Rs12.78) as compared to profit after tax of Rs4bn (EPS: Rs14.12) in same period last year, down by 9.5% YoY.

The company has posted the revenue of Rs9.3bn against Rs10.3bn in SPLY, recording a negative growth of 9.4% 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 57.1% as compared to 61.4% in SPLY owing to higher operating cost which has increased by 4.4% YoY. Exploration cost has been declined by 79.9% YoY while the admin costs has been increased by 4.6% YoY.

Other income has declined by 35.2% YoY to Rs303mn as compared to Rs467mn during SPLY owing to lower exchange gains. Finance cost has also been declined by 38.1% YoY due to lower provision of decommissioning cost. Lastly, effective taxation has been lowered to 27.9% as compared to 30.8% during SPLY.

POL is currently trading at a FY21E PE of 6.69x. 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 3.18x. Going forward, we have a **BUY** stance on the scrip with a DCF based Jun-21 TP of Rs 455 as the demand for crude oil is set to bounce back this year at a historically quick pace. We have assumed the Arab Light price at \$45 in FY21 and \$50 thereafter till FY25, in our working.

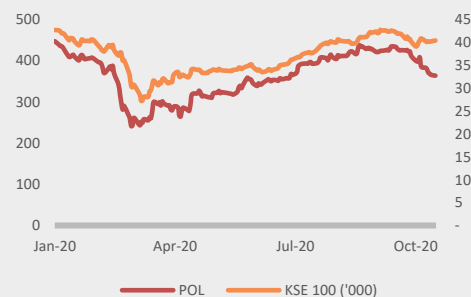
Rupees' millions	1QFY21	1QFY20	YoY	FY20	FY19	YoY
Net Sales	9,289	10,251	9.4% ▼	38,475	43,977	12.5% ▼
Operating Cost	-2,351	-2,251	4.4% ▲	-9,408	-10,393	9.5% ▼
Gross Profit	5,305	6,295	15.7% ▼	22,368	25,410	12.0% ▼
Exploration Cost	-76	-376	79.9% ▼	-1,405	-2,049	31.4% ▼
Administrative Expenses	-57	-55	4.6% ▲	-192	-181	6.1% ▲
Operating Profit	4,818	5,464	11.8% ▼	19,388	21,452	9.6% ▼
Other Income	303	467	35.2% ▼	4,558	7,177	36.5% ▼
Finance costs	-86	-139	38.1% ▼	-2,212	-3,774	41.4% ▼
Profit Before Taxation	5,035	5,793	13.1% ▼	21,734	24,855	12.6% ▼
Taxation	-1,406	-1,785	21.2% ▼	-5,359	-7,983	32.9% ▼
Profit After Taxation	3,629	4,008	9.5% ▼	16,376	16,872	2.9% ▼
Earnings Per Share	12.78	14.12	9.5% ▼	57.69	59.44	2.9% ▼
Dividend	0.00	0.00		50.00	50.00	
Bonus	0%	0%		0%	0%	
Gross Margin	57.1%	61.4%	4.3% ▼	58.1%	57.8%	0.4% ▲
Exploration Cost to Sales	-0.8%	-3.7%	2.9% ▼	-3.7%	-4.7%	1.0% ▼
Admin Cost to Sales	-0.6%	-0.5%	0.1% ▲	-0.5%	-0.4%	0.1% ▲
Other Income to Sales	3.3%	4.6%	1.3% ▼	11.8%	16.3%	4.5% ▼
Effective Taxation	-27.9%	-30.8%	2.9% ▼	-24.7%	-32.1%	7.5% ▼
Net Margin	39.1%	39.1%	0.0% ▼	42.6%	38.4%	4.2% ▲

Source: ACPL Research, Company Financials

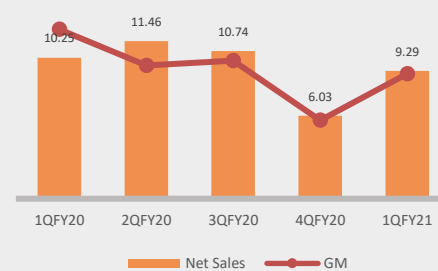
Key Statistics

Symbol	POL
TP - Jun 21	455.00
LDCP	366.61
Upside (%)	24
Free Float ('mn)	130
Market Cap. (Rs.'mn)	104,064

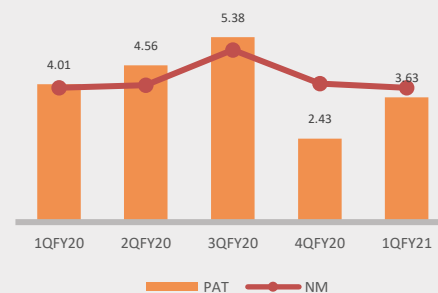
POL vs KSE 100



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	38,688	43,020	40,316
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	-281	-312	-292
Royalty	-2,610	-2,021	-2,344	-3,778	-4,554	-4,010	-4,032	-4,484	-4,202
Amortization of development and decommissioning costs	-3,027	-2,448	-2,209	-2,987	-3,312	-2,410	-2,441	-2,742	-2,999
Gross profit	16,267	11,243	14,072	17,136	25,410	22,368	22,527	26,074	23,415
Exploration Cost	-4,729	-2,052	-1,468	-2,990	-2,049	-1,405	-1,405	-1,405	-1,405
Administrative Expenses	-140	-140	-109	-170	-181	-192	-193	-215	-202
Other Charges	-486	-560	-809	-967	-1,728	-1,383	-1,391	-1,546	-1,449
Profit from operations	10,913	8,491	11,685	13,009	21,452	19,388	19,537	22,908	20,358
Other income	1,563	1,411	1,473	3,262	7,177	4,558	2,340	2,615	2,703
Finance cost	-987	-1,022	-746	-1,919	-3,774	-2,212	-1,228	-1,228	-1,228
Profit before income tax	11,489	8,880	12,412	14,353	24,855	21,734	20,649	24,295	21,833
Income tax expense	-3,031	-1,646	-2,734	-2,969	-7,983	-5,359	-5,091	-5,990	-5,383
Profit for the year	8,459	7,234	9,679	11,384	16,872	16,376	15,558	18,305	16,450
EPS	29.80	25.48	34.10	40.10	59.44	57.69	54.81	64.49	57.95
EBITDA	9,489	6,913	10,128	11,377	19,953	17,964	18,184	21,622	19,137

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%	0.6%	11.2%	-6.3%
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%	0.6%	11.2%	-6.3%
Royalty	-24.1%	-22.6%	16.0%	61.2%	20.5%	-11.9%	0.6%	11.2%	-6.3%
Amortization of development and decommissioning costs	-41.8%	-19.1%	-9.7%	35.2%	10.9%	-27.2%	1.3%	12.3%	9.4%
Gross profit	-14.4%	-30.9%	25.2%	21.8%	48.3%	-12.0%	0.7%	15.7%	-10.2%
Exploration Cost	176.6%	-56.6%	-28.4%	103.6%	-31.5%	-31.4%	0.0%	0.0%	0.0%
Administrative Expenses	14.3%	0.0%	-21.9%	55.6%	6.9%	6.1%	0.6%	11.2%	-6.3%
Other Charges	-57.4%	15.4%	44.4%	19.5%	78.8%	-20.0%	0.6%	11.2%	-6.3%
Profit from operations	-32.0%	-22.2%	37.6%	11.3%	64.9%	-9.6%	0.8%	17.3%	-11.1%
Other income	-14.3%	-9.7%	4.4%	121.5%	120.0%	-36.5%	-48.7%	11.8%	3.3%
Finance cost	50.9%	3.5%	-27.0%	157.1%	96.6%	-41.4%	-44.5%	0.0%	0.0%
Profit before income tax	-33.2%	-22.7%	39.8%	15.6%	73.2%	-12.6%	-5.0%	17.7%	-10.1%
Income tax expense	-29.8%	-45.7%	66.1%	8.6%	168.9%	-32.9%	-5.0%	17.7%	-10.1%
Profit for the year	-34.4%	-14.5%	33.8%	17.6%	48.2%	-2.9%	-5.0%	17.7%	-10.1%
EPS	-34.4%	-14.5%	33.8%	17.6%	48.2%	-2.9%	-5.0%	17.7%	-10.1%
EBITDA	-35.7%	-27.2%	46.5%	12.3%	75.4%	-10.0%	1.2%	18.9%	-11.5%

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	58.23	60.61	58.08
NP Margin	%	27.39	29.11	35.48	34.85	38.36	42.56	40.21	42.55	40.80
OP Margin	%	35.34	34.17	42.83	39.83	48.78	50.39	50.50	53.25	50.50
ROE	%	26.14	23.99	30.73	34.74	44.32	40.67	36.65	41.11	35.03
ROA	%	15.26	12.98	16.79	16.22	20.70	17.88	14.16	15.28	13.02
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	2.53	2.82	2.91
Quick	x	1.65	1.55	1.70	1.42	1.75	1.46	2.04	2.31	2.42
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	528.69	505.95	531.89
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
DPS		40.00	35.00	40.00	42.50	50.00	50.00	47.50	55.89	50.23
Div. Yield	%	10.91	9.55	10.91	11.59	13.64	13.64	12.96	15.25	13.70
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	54.81	64.49	57.95
BVPS		114.02	106.23	110.96	115.44	134.12	141.86	149.55	156.85	165.45
P/E	x	12.30	14.39	10.75	9.14	6.17	6.35	6.69	5.69	6.33
Sales per share		108.79	87.54	96.11	115.08	154.93	135.54	136.30	151.56	142.03
P/BV	x	3.22	3.45	3.30	3.18	2.73	2.58	2.45	2.34	2.22
P/S	x	3.37	4.19	3.81	3.19	2.37	2.70	2.69	2.42	2.58
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	15.91	18.65	16.58

Source: ACPL Research, Company Financials

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

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- 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
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Market Weight	Neutral
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