

POL has announced its 2QFY20 result where it posted profit after tax of Rs 8.6bn (EPS: Rs 30.19) in 6MFY20 as compared to profit after tax of Rs 7.9bn (EPS: Rs27.79) in same period last year, up by 8.6% YoY.

The company has posted the revenue of Rs 21.7bn against Rs 22.2bn in SPLY, recording a negative growth of 2.2% YoY. We note that this decline is attributed to the volatility in international crude oil prices and the drop in the production of oil and gas.

Gross margin has been improved to 59.6% in 6MFY20 as compared to 56.3% in 6MFY19 owing to lower operating cost which has decline by 8.3% YoY. Exploration and admin costs have also declined by 2.4% YoY and 3.1% YoY respectively, contributing positively to the EPS.

Other income has declined by 62.4% YoY to Rs 1.2bn in 6MFY20 as compared to Rs 3.2bn during SPLY owing to lower exchange gains. Finance cost has also been declined by 74.4% YoY due to lower provision of decommissioning cost.

Lastly, lower effective taxation of 28.3% in 6MFY20 as compared to 34.8% during SPLY also contributed in the upsurge of the eps.

POL is currently trading at FY20E PE of 7.13x. Furthermore, the script is trading at a FY20E P/B of 3.17x which offers a discount of 20% relative to its historical 5-year average of 3.94x. We maintain our **BUY** stance on the script with a DCF based Dec-20 TP of Rs 530 which provides an upside potential of 16%. Furthermore, it also offers an attractive dividend yield of 11% which makes the total return of 27%.

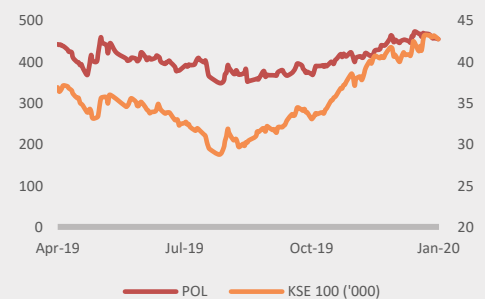
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	11,461	11,639	1.5% ▼	21,712	22,209	2.2% ▼
Operating Cost	-2,798	-2,726	2.7% ▲	-5,049	-5,504	8.3% ▼
Gross Profit	6,637	6,646	0.1% ▼	12,932	12,502	3.4% ▲
Exploration Cost	-415	-79	425.8% ▲	-791	-810	2.4% ▼
Administrative Expenses	-49	-50	1.3% ▼	-104	-107	3.1% ▼
Operating Profit	5,762	6,023	4.3% ▼	11,226	10,718	4.7% ▲
Other Income	707	2,286	69.1% ▼	1,174	3,127	62.4% ▼
Finance costs	-309	-1,347	77.0% ▼	-448	-1,749	74.4% ▼
Profit Before Taxation	6,160	6,962	11.5% ▼	11,953	12,096	1.2% ▼
Taxation	-1,600	-2,940	45.6% ▼	-3,384	-4,207	19.6% ▼
Profit After Taxation	4,560	4,022	13.4% ▲	8,568	7,889	8.6% ▲
Earnings Per Share	16.07	14.17	13.4% ▲	30.19	27.79	8.6% ▲
Dividend	20.00	20.00		20.00	20.00	
Bonus	0%	0%		0%	0%	
Gross Margin	57.9%	57.1%	0.8% ▲	59.6%	56.3%	3.3% ▲
Exploration Cost to Sales	-3.6%	-0.7%	2.9% ▼	-3.6%	-3.6%	0.0% ▲
Admin Cost to Sales	-0.4%	-0.4%	0.0% ▼	-0.5%	-0.5%	0.0% ▲
Other Income to Sales	6.2%	19.6%	13.5% ▼	5.4%	14.1%	8.7% ▼
Effective Taxation	-26.0%	-42.2%	16.3% ▲	-28.3%	-34.8%	6.5% ▲
Net Margin	39.8%	34.6%	5.2% ▲	39.5%	35.5%	3.9% ▲

Source: ACPL Research, Company Financials

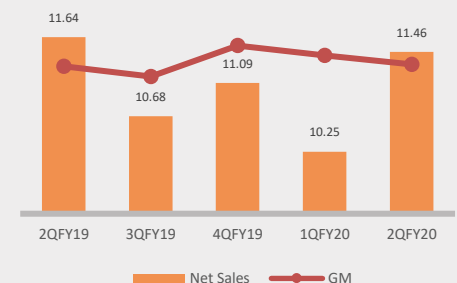
Key Statistics

Symbol	POL
TP - Dec 20	530.00
LDPCP	455.01
Upside (%)	16.48
Free Float ('mn)	130
Market Cap. (Rs.'mn)	129,157

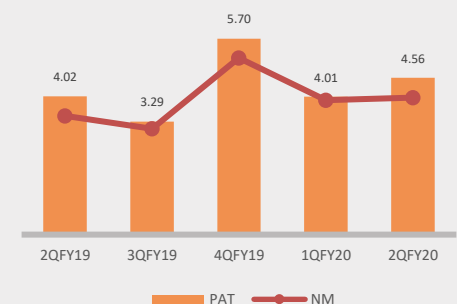
POL vs KSE 100



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	FY20E	FY21E	FY22E	FY23E
Revenue	30,881	24,848	27,280	32,665	43,977	44,255	45,961	47,601	44,548
Operating Cost	-8,726	-8,872	-8,384	-8,456	-10,393	-8,851	-9,192	-9,520	-8,910
Excise Duty	-251	-265	-272	-308	-309	-311	-323	-335	-313
Royalty	-2,610	-2,021	-2,344	-3,778	-4,554	-4,868	-5,056	-5,236	-4,900
Amortization of development and decommissioning costs	-3,027	-2,448	-2,209	-2,987	-3,312	-2,479	-2,240	-2,017	-1,817
Gross profit	16,267	11,243	14,072	17,136	25,410	27,746	29,150	30,493	28,608
Exploration Cost	-4,729	-2,052	-1,468	-2,990	-2,049	-42	-1	0	0
Administrative Expenses	-140	-140	-109	-170	-181	-111	-115	-119	-111
Other Charges	-486	-560	-809	-967	-1,728	-2,036	-2,114	-2,190	-2,049
Profit from operations	10,913	8,491	11,685	13,009	21,452	25,558	26,920	28,184	26,447
Other income	1,563	1,411	1,473	3,262	7,177	5,999	4,023	4,072	3,989
Finance cost	-987	-1,022	-746	-1,919	-3,774	-6,031	-6,031	-6,031	-6,031
Profit before income tax	11,489	8,880	12,412	14,353	24,855	25,526	24,912	26,225	24,406
Income tax expense	-3,031	-1,646	-2,734	-2,969	-7,983	-7,403	-7,225	-7,605	-7,078
Profit for the year	8,459	7,234	9,679	11,384	16,872	18,124	17,688	18,620	17,328
EPS	29.80	25.48	34.10	40.10	59.44	63.85	62.31	65.60	61.05
EBITDA	9,489	6,913	10,128	11,377	20,008	24,281	25,790	27,184	25,564

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	-13.1%	-19.5%	9.8%	19.7%	34.6%	0.6%	3.9%	3.6%	-6.4%
Operating Cost	14.7%	1.7%	-5.5%	0.9%	22.9%	-14.8%	3.9%	3.6%	-6.4%
Excise Duty	-11.1%	5.7%	2.6%	13.3%	0.5%	0.6%	3.9%	3.6%	-6.4%
Royalty	-24.1%	-22.6%	16.0%	61.2%	20.5%	6.9%	3.9%	3.6%	-6.4%
Amortization of development and decommissioning costs	-41.8%	-19.1%	-9.7%	35.2%	10.9%	-25.2%	-9.6%	-9.9%	-9.9%
Gross profit	-14.4%	-30.9%	25.2%	21.8%	48.3%	9.2%	5.1%	4.6%	-6.2%
Exploration Cost	176.6%	-56.6%	-28.4%	103.6%	-31.5%	-98.0%	-97.8%	-73.8%	-71.0%
Administrative Expenses	14.3%	0.0%	-21.9%	55.6%	6.9%	-39.0%	3.9%	3.6%	-6.4%
Other Charges	-57.4%	15.4%	44.4%	19.5%	78.8%	17.8%	3.9%	3.6%	-6.4%
Profit from operations	-32.0%	-22.2%	37.6%	11.3%	64.9%	19.1%	5.3%	4.7%	-6.2%
Other income	-14.3%	-9.7%	4.4%	121.5%	120.0%	-16.4%	-32.9%	1.2%	-2.0%
Finance cost	50.9%	3.5%	-27.0%	157.1%	96.6%	59.8%	0.0%	0.0%	0.0%
Profit before income tax	-33.2%	-22.7%	39.8%	15.6%	73.2%	2.7%	-2.4%	5.3%	-6.9%
Income tax expense	-29.8%	-45.7%	66.1%	8.6%	168.9%	-7.3%	-2.4%	5.3%	-6.9%
Profit for the year	-34.4%	-14.5%	33.8%	17.6%	48.2%	7.4%	-2.4%	5.3%	-6.9%
EPS	-34.4%	-14.5%	33.8%	17.6%	48.2%	7.4%	-2.4%	5.3%	-6.9%
EBITDA	-35.7%	-27.2%	46.5%	12.3%	75.9%	21.4%	6.2%	5.4%	-6.0%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	52.68	45.25	51.58	52.46	57.78	62.70	63.42	64.06	64.22
NP Margin	%	27.39	29.11	35.48	34.85	38.36	40.95	38.48	39.12	38.90
OP Margin	%	35.34	34.17	42.83	39.83	48.78	57.75	58.57	59.21	59.37
ROE	%	26.14	23.99	30.73	34.74	44.32	44.48	39.59	39.82	35.84
ROA	%	15.26	12.98	16.79	16.22	20.70	21.34	20.45	20.67	19.07
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	2.37	2.22	2.22	1.72	2.02	2.26	2.61	2.79	2.85
Quick	x	1.65	1.55	1.70	1.42	1.75	2.01	2.33	2.51	2.59
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Receivables Days		41.10	49.00	44.06	92.10	73.94	73.94	73.94	73.94	73.94
Payables Days		121.78	148.91	159.27	375.30	379.98	427.36	373.15	373.37	407.83
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		40.00	35.00	40.00	42.50	50.00	50.00	55.00	60.00	55.00
Div. Yield	%	8.79	7.69	8.79	9.34	10.99	10.99	12.09	13.19	12.09
Dividend Cover	x	0.74	0.73	0.85	0.94	1.19	1.28	1.13	1.09	1.11
Retention	%	-34.23	-37.34	-17.31	-5.97	15.88	21.69	11.74	8.53	9.90
Payout	%	134.23	137.34	117.31	105.97	84.12	78.31	88.26	91.47	90.10
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	63.85	62.31	65.60	61.05
BVPS		114.02	106.23	110.96	115.44	134.12	143.56	157.41	164.72	170.32
P/E	x	15.27	17.85	13.34	11.35	7.66	7.13	7.30	6.94	7.45
Sales per share		108.79	87.54	96.11	115.08	154.93	155.91	161.92	167.69	156.94
P/BV	x	3.99	4.28	4.10	3.94	3.39	3.17	2.89	2.76	2.67
P/S	x	4.18	5.20	4.73	3.95	2.94	2.92	2.81	2.71	2.90
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	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	4.24	4.46	4.67	4.39

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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- 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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