

POL has announced its annual result where it posted profit after tax of Rs16.4bn (EPS: Rs57.69) in FY20 as compared to profit after tax of Rs16.9bn (EPS: Rs59.44) in same period last year, down by 2.9% YoY.

The company has posted the revenue of Rs38.5bn against Rs43.9bn in SPLY, recording a negative growth of 12.5% 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 slightly been improved to 58.1% in FY20 as compared to 57.8% in SPLY owing to lower operating cost which has decline by 9.5% YoY. Exploration cost has been declined by 31.4% YoY while the admin costs has been increased by 6.1% YoY.

Other income has declined by 36.5% YoY to Rs4.6bn as compared to Rs7.2bn during SPLY owing to lower exchange gains. Finance cost has also been declined by 41.4% YoY due to lower provision of decommissioning cost. Lastly, effective taxation has been lowered to 24.7% in FY20 as compared to 32.1% during SPLY.

POL is currently trading at a FY21E PE of 8.19x. Furthermore, the scrip is also trading at FY21E PB of 2.8x which provides a discount of 20% relative to its 5-year average of 3.67x. Going forward, we have a **BUY** stance on the scrip with a DCF based Jun-21 TP of Rs 490 as the demand for crude oil is set to bounce back next 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	4QFY20	4QFY19	YoY	FY20	FY19	YoY
Net Sales	6,025	11,086	45.6% ▼	38,475	43,977	12.5% ▼
Operating Cost	-1,699	-2,067	17.8% ▼	-9,408	-10,393	9.5% ▼
<b>Gross Profit</b>	<b>3,169</b>	<b>7,225</b>	<b>56.1% ▼</b>	<b>22,368</b>	<b>25,410</b>	<b>12.0% ▼</b>
Exploration Cost	-253	-142	78.8% ▲	-1,405	-2,049	31.4% ▼
Administrative Expenses	-18	-27	34.0% ▼	-192	-181	6.1% ▲
<b>Operating Profit</b>	<b>2,754</b>	<b>6,545</b>	<b>57.9% ▼</b>	<b>19,388</b>	<b>21,452</b>	<b>9.6% ▼</b>
Other Income	861	3,201	73.1% ▼	4,558	7,177	36.5% ▼
Finance costs	-524	-1,710	69.4% ▼	-2,212	-3,774	41.4% ▼
Profit Before Taxation	3,092	8,036	61.5% ▼	21,734	24,855	12.6% ▼
Taxation	-663	-2,340	71.7% ▼	-5,359	-7,983	32.9% ▼
<b>Profit After Taxation</b>	<b>2,429</b>	<b>5,696</b>	<b>57.4% ▼</b>	<b>16,376</b>	<b>16,872</b>	<b>2.9% ▼</b>
<b>Earnings Per Share</b>	<b>8.56</b>	<b>20.07</b>	<b>57.4% ▼</b>	<b>57.69</b>	<b>59.44</b>	<b>2.9% ▼</b>
<b>Dividend</b>	<b>30.00</b>	<b>30.00</b>		<b>50.00</b>	<b>50.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	

Closing Period: 13 Oct 20 - 19 Oct 20

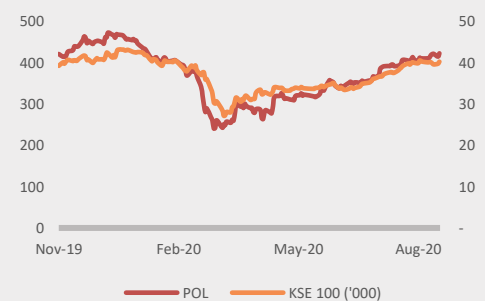
	4QFY20	4QFY19	YoY	FY20	FY19	YoY
Gross Margin	52.6%	65.2%	12.6% ▼	58.1%	57.8%	0.4% ▲
Exploration Cost to Sales	-4.2%	-1.3%	2.9% ▲	-3.7%	-4.7%	1.0% ▼
Admin Cost to Sales	-0.3%	-0.2%	0.1% ▲	-0.5%	-0.4%	0.1% ▲
Other Income to Sales	14.3%	28.9%	14.6% ▼	11.8%	16.3%	4.5% ▼
Effective Taxation	-21.4%	-29.1%	7.7% ▼	-24.7%	-32.1%	7.5% ▼
<b>Net Margin</b>	<b>40.3%</b>	<b>51.4%</b>	<b>11.1% ▼</b>	<b>42.6%</b>	<b>38.4%</b>	<b>4.2% ▲</b>

Source: ACPL Research, Company Financials

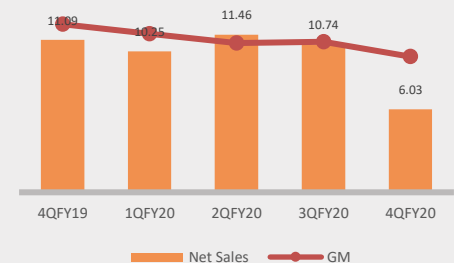
## Key Statistics

Symbol	POL
TP - Jun 21	490.00
LDCP	423.14
Upside (%)	16
Free Float ('mn)	130
Market Cap. (Rs.'mn)	120,110

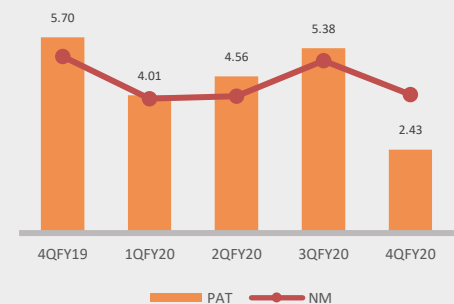
## POL vs KSE 100



## 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	36,622	40,584	38,270
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	-266	-294	-278
Royalty	-2,610	-2,021	-2,344	-3,778	-4,554	-4,010	-3,817	-4,230	-3,989
Amortization of development and decommissioning costs	-3,027	-2,448	-2,209	-2,987	-3,312	-2,410	-2,278	-2,101	-1,959
<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>20,854</b>	<b>24,551</b>	<b>22,637</b>
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	-183	-203	-191
Other Charges	-486	-560	-809	-967	-1,728	-1,383	-1,316	-1,459	-1,376
<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>17,949</b>	<b>21,484</b>	<b>19,665</b>
Other income	1,563	1,411	1,473	3,262	7,177	4,558	3,750	3,868	3,805
Finance cost	-987	-1,022	-746	-1,919	-3,774	-2,212	-2,224	-2,224	-2,224
<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>19,475</b>	<b>23,128</b>	<b>21,246</b>
Income tax expense	-3,031	-1,646	-2,734	-2,969	-7,983	-5,359	-4,285	-5,088	-4,674
<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>15,191</b>	<b>18,040</b>	<b>16,572</b>
EPS	<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>53.52</b>	<b>63.55</b>	<b>58.38</b>
EBITDA	<b>9,489</b>	<b>6,913</b>	<b>10,128</b>	<b>11,377</b>	<b>20,008</b>	<b>18,110</b>	<b>16,819</b>	<b>20,484</b>	<b>18,781</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%	10.8%	-5.7%
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%	-4.8%	10.8%	-5.7%
Royalty	-24.1%	-22.6%	16.0%	61.2%	20.5%	-11.9%	-4.8%	10.8%	-5.7%
Amortization of development and decommissioning costs	-41.8%	-19.1%	-9.7%	35.2%	10.9%	-27.2%	-5.5%	-7.8%	-6.8%
<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>-6.8%</b>	<b>17.7%</b>	<b>-7.8%</b>
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%	-4.8%	10.8%	-5.7%
Other Charges	-57.4%	15.4%	44.4%	19.5%	78.8%	-20.0%	-4.8%	10.8%	-5.7%
<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>-7.4%</b>	<b>19.7%</b>	<b>-8.5%</b>
Other income	-14.3%	-9.7%	4.4%	121.5%	120.0%	-36.5%	-17.7%	3.2%	-1.6%
Finance cost	50.9%	3.5%	-27.0%	157.1%	96.6%	-41.4%	0.6%	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>-10.4%</b>	<b>18.8%</b>	<b>-8.1%</b>
Income tax expense	-29.8%	-45.7%	66.1%	8.6%	168.9%	-32.9%	-20.0%	18.8%	-8.1%
<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>-7.2%</b>	<b>18.8%</b>	<b>-8.1%</b>
EPS	<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>-7.2%</b>	<b>18.8%</b>	<b>-8.1%</b>
EBITDA	<b>-35.7%</b>	<b>-27.2%</b>	<b>46.5%</b>	<b>12.3%</b>	<b>75.9%</b>	<b>-9.5%</b>	<b>-7.1%</b>	<b>21.8%</b>	<b>-8.3%</b>

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	58.14	56.94	60.49	59.15
NP Margin	%	27.39	29.11	35.48	34.85	38.36	42.56	41.48	44.45	43.30
OP Margin	%	35.34	34.17	42.83	39.83	48.78	50.39	49.01	52.94	51.39
ROE	%	26.14	23.99	30.73	34.74	44.32	40.19	35.38	40.13	34.99
ROA	%	15.26	12.98	16.79	16.22	20.70	19.61	18.37	20.48	18.33
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	2.37	2.22	2.22	1.72	2.02	2.19	2.47	2.81	2.92
Quick	x	1.65	1.55	1.70	1.42	1.75	1.96	2.22	2.54	2.67
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	438.03	388.13	373.70	389.71
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
DPS		40.00	35.00	40.00	42.50	50.00	50.00	46.38	55.08	50.60
Div. Yield	%	9.45	8.27	9.45	10.04	11.82	11.82	10.96	13.02	11.96
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	53.52	63.55	58.38
BVPS		114.02	106.23	110.96	115.44	134.12	143.56	151.25	158.38	166.86
P/E	x	14.20	16.60	12.41	10.55	7.12	7.33	7.91	6.66	7.25
Sales per share		108.79	87.54	96.11	115.08	154.93	135.54	129.02	142.97	134.82
P/BV	x	3.71	3.98	3.81	3.67	3.15	2.95	2.80	2.67	2.54
P/S	x	3.89	4.83	4.40	3.68	2.73	3.12	3.28	2.96	3.14
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	8.77	8.07	9.66	8.84

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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