

Day Break

Thursday, 20 April 2017

COMPANY UPDATE

OIL & GAS DEVELOPMENT COMPANY LIMITED

OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY		
Target Price	196.2		
Last Closing	19-Apr-17	154.7	
Upside	26.8		

Market Data

Bloomberg Tkr.	OGDC PA		
Shares (mn)	4,300.9		
Free Float Shares (mn)	645.1		
Free Float Shares (%)	15.0%		
Market Cap (PKRbn USDmn)	665.3	6,346.9	
Exchange	KSE 100		
Price Info.	90D	180D	365D
Abs. Return	0.8	8.2	32.7
Lo	144.6	140.0	115.4
Hi	160.7	170.7	170.7

Key Company Financials

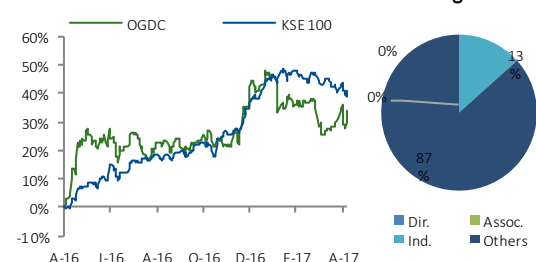
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	162.9	191.0	238.7	227.8
Net Income	59.97	71.8	89.9	83.3
EPS (PKR)	13.9	16.7	20.9	19.4
DPS (PKR)	5.2	5.8	8.0	7.5
Total Assets	589.6	651.5	711.6	766.5
Total Equity	478.6	528.9	585.7	638.3

Key Financial Ratios

ROE (%)	12.5	13.6	15.3	13.0
P/E (x)	11.1	9.3	7.4	8.0
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	3.4	3.7	5.2	4.8

Relative Price Performance & Shareholding



About the Company

The Company was incorporated on October 23, 1997 and is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. Its GDS are listed on the London Stock Exchange.

Source: Bloomberg, KSE 100 & IGI Research

Abdullah Farhan

Research Analyst

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Oil & Gas – Exploration Companies

OGDC: Higher Oil Price and production Commencement from Discoveries to Drive Earnings Growth in 3QFY17

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 21st Apr-17 to announce financial result for 3QFY17. We expect the company to report earnings of PKR 17.3bn (EPS PKR 4.03) up by +86%YoY in 3QFY17.
- We attribute this substantial earnings growth to a) +79%YoY increase in oil prices, b) +15%/+5%YoY higher oil/gas production, and c) commencement of production from Mardankhel in Nov-16. However, only dry well cost incurred at Thal East-2 should keep exploration cost on the lower side providing support to earning.
- We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +27% upside from its last closing. The company is currently trading at a FY17E P/E of 9.3x and offers a dividend yield of 4%.

Earnings to clock in at PKR 11.3/share in 3QFY17, up by +23%YoY

We preview Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 21st Apr-17 to announce financial result for 3QFY17. We expect the company to report earnings of PKR 17.3bn (EPS PKR 4.03) up by +86%YoY in 3QFY17 as compared to PKR 9.3bn (EPS PKR 2.16) in the same period last year.

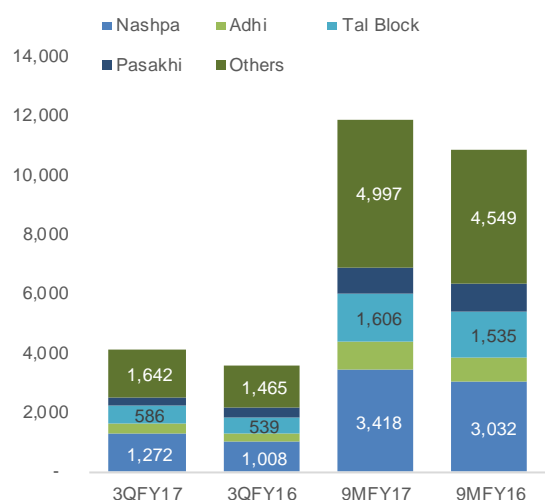
We attribute this substantial earnings growth to a) +79%YoY increase in oil prices, b) +15%/+5%YoY higher oil/gas production, and c) commencement of production from Mardankhel in Nov-16. However, only dry well cost incurred at Thal East-2 should keep exploration cost on the lower side providing support to earning. Cumulative earnings for 9MFY17 is anticipated to clock in at 47.3bn (EPS PKR 11.01) as compared to PKR 43.5bn (EPS PKR 10.11) in the corresponding period last year. The company is expected to announce cash dividend of PKR 1.25/share along with the result, taking cumulative dividend for 9MFY17 to PKR 3.75/share.

Oil and gas production up by +15%YoY and +5%YoY, respectively in 3QFY17

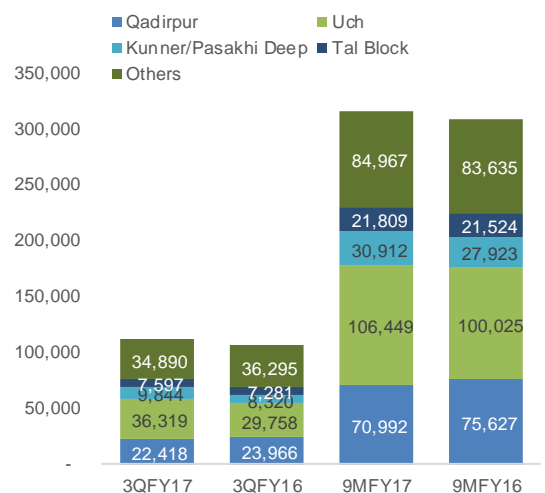
Oil production is expected to increase by +15%YoY to 45,004bopd in 3QFY17 on the back of production commencement from Mardankhel (874bopd production in 3QFY17) and production commencement from Dars, Dars West and Deep, Pasakhi East and Deep West, Shah, Thora, Thora Deep and Unar (cumulative production of 518bopd).

Gas production is estimated to increase by +5%YoY to 1,207mmcf owing to a) 10.2mmcf production coming online from Mardankhel (total potential at time of Drill Stem Test was 40mmcf), and b) additional cumulative production of 27.5mmcf coming online from Dars, Dars West and Deep, Pasakhi East and Deep West, Shah, Thora/Thora Deep and Unar. However, excluding Mardankhel, gas production from Tal block declined by 9%YoY.

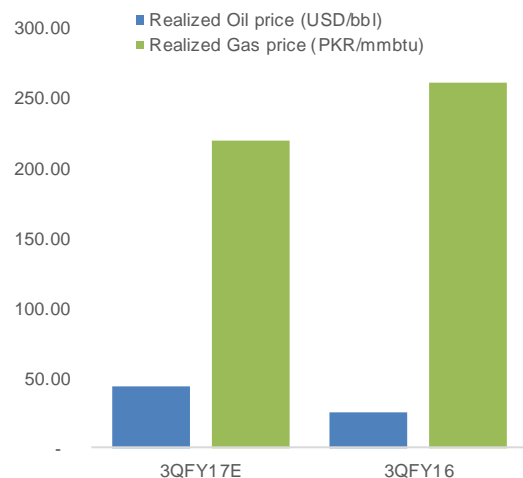
Total Oil Production in 3QFY17 (000'bbls)



Total Gas Production in 3QFY17 (mmcf)



Realized oil and gas price



Source: Company Financials, PPS & IGI Research

Exhibit:

Financial Highlights

PKRmn	3QFY17E	3QFY16	YoY	9MFY17E	9MFY16	YoY
Net Sales	47,489	36,525	30%	128,571	122,711	5%
Royalty	5,224	3,891	34%	14,052	13,585	3%
Operating Expenses	16,531	13,416	23%	44,887	39,984	12%
Gross Profit	25,177	18,615	35%	68,238	67,670	1%
Other Income	4,219	3,345	26%	13,528	11,640	16%
Exploration & Prospecting	3,819	5,996	-36%	12,008	10,709	12%
Finance Cost	452	420	7%	1,267	1,253	1%
WPP Fund	1,103	729	51%	3,235	3,259	-1%
PBT	23,430	13,848	69%	63,933	61,924	3%
PAT	17,329	9,294	86%	47,337	43,500	9%
EPS (PKR)	4.03	2.16		11.01	10.11	
DPS (PKR)	1.25	0.50		3.75	3.20	

Source: IGI Research and Company Financials

No Shares: 4,300.9

Recommendation

We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +27% upside from its last closing. The company is currently trading at a FY17E P/E of 9.3x and offers a dividend yield of 4%.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

(Reserve Based DCF Valuation)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Radio
Station, Mansehra Road, Abbottabad
Phone: (+92-99) 2408243 - 44