

Flash Note

Friday, 15 September 2017



Securities

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Oil & Gas – Exploration Companies

OGDC: Earnings reported at PKR 14.83/share in FY17, up by +6%YoY

- Oil & Gas Development Company Limited (OGDC) announced financial results for FY17 with earnings clocking in at PKR 63.80bn (EPS PKR 14.83) up by +6%YoY as compared to PKR 59.97bn (EPS PKR 13.94) last year.
- For 4QFY17, the company reported earnings of PKR 16.21bn (EPS PKR 3.76) down by 2%YoY compared to PKR 16.47bn (EPS PKR 3.83) in the same period last year likely on the back of higher tax rate.
- The company announced cash dividend of PKR 2.0/share along with the result, taking FY17 cumulative dividend to PKR 6.0/share.
- Revenues increased by +13%YoY to PKR 45.2bn in 4QFY17 likely owing to a) +16%YoY rise in oil prices and, b) +5%/+4%YoY rise in oil/gas production.
- Operating cost declined by 11%YoY to PKR 13.42bn during 4QFY17 as compared to PKR 15.00bn recorded in the corresponding period last year.
- Exploration cost declined by 25%YoY to PKR 2.89bn likely on the back of lower prospecting expenses.
- Effective tax rate stood at 34.2% in 4QFY17 as compared to 11.4% last year, bringing total effective tax rate of FY17 at 28.4% compared to 25.5% last year.

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 FY18E P/E of 7.5x and a healthy dividend yield of 4.5%.

Exhibit:

Financial Highlights

PKRmn	4QFY17	4QFY16	YoY	QoQ	FY17	FY16	YoY
Net Sales	45,200	40,155	13%	-1%	171,829	162,867	6%
Royalty	4,758	4,494	6%	-4%	18,519	18,079	2%
Operating Expenses	13,417	15,002	-11%	-9%	56,585	54,986	3%
Gross Profit	26,605	20,220	32%	5%	95,004	87,890	8%
Other Income	3,450	3,063	13%	6%	16,020	14,703	9%
Exploration and Prospecting	2,888	3,839	-25%	32%	13,269	14,548	-9%
Finance Cost	279	465	-40%	-34%	1,515	1,718	-12%
WPP Fund	1,296	978	32%	3%	4,691	4,237	11%
PBT	24,618	18,583	32%	3%	89,137	80,507	11%
PAT	16,209	16,471	-2%	-8%	63,803	59,971	6%
EPS (PKR)	3.76	3.83			14.83	13.94	
DPS (PKR)	2.00	2.00			6.00	5.20	

Source: IGI Research and Company Financials

No Shares: 4,300.9

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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)
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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.

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