

# Day Break

Friday, 16 February 2018

## COMPANY UPDATE

### Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price:	194.7
Last Closing: 15-Feb-18	165.5
Upside:	17.7
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-18

### 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)	711.8   6,435.5
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	2.9 8.0 5.9
Lo	152.9 141.1 133.7
Hi	173.8 173.8 188.7

### Key Company Financials

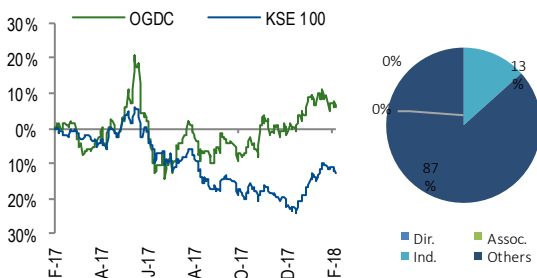
Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	171.8	221.3	265.6	261.7
Net Income	63.8	81.2	99.3	95.5
EPS (PKR)	14.8	18.9	23.1	22.2
DPS (PKR)	6.0	6.5	8.0	7.8
Total Assets	627.3	699.7	767.2	831.9
Total Equity	513.0	567.5	633.1	696.4

### Key Financial Ratios

ROE (%)	12.4	14.3	15.7	13.7
P/E (x)	11.2	8.8	7.2	7.5
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	3.6	3.9	4.8	4.7

### Relative Price Performance



### 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, PSX & IGI Research

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## Oil & Gas Exploration Companies

### OGDC: Higher Oil prices to lift EPS to PKR 3.76 in 2QFY18 despite lower oil production and dry well cost incurred

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 19<sup>th</sup> Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 16.2bn (EPS PKR 3.76) up by +5%YoY.
- Growth in earnings is also attributable to a) +25%YoY rise in oil prices, and, b) +40%YoY incline in LPG production led by production commencement from old discoveries. However, growth in earnings is estimated to dilute on the back of 3 dry well cost incurred during 2QFY18 leading to +19%YoY incline in exploration expense.
- If the company reverts price back to PP97 for Tal block similar to POL and retrospective impact of PKR 4.25bn, earnings are expected to drag down to PKR 3.22/share in 2QFY18.
- We have a 'BUY' call on OGDC with our Dec-18 target price of PKR 194.7/share, offering +17.7% upside from its last close.

### Earnings to clock in at PKR 4.12/share for 2QFY18, up by +5%YoY...

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 19<sup>th</sup> Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 16.2bn (EPS PKR 3.76) up by +5%YoY compared to PKR 15.4bn (EPS PKR 3.58) in the same period last year.

Growth in earnings is also attributable to a) +25%YoY rise in oil prices, and, b) +40%YoY incline in LPG production led by production commencement from old discoveries. However, growth in earnings is estimated to dilute on the back of 3 dry well cost incurred during 2QFY18 leading to +19%YoY incline in exploration expense. We have not included the retrospective amount pertaining to revision in Tal block well head gas price to the tune of PKR 3.6bn having EPS impact of PKR 0.36, after GoP amended Petroleum Policy 2012 (PP12) in Dec-17 applying Windfall levy on blocks converted to PP12 for new exploration effort. Further, oil production dropped by 12%YoY in 2QFY18 owing to lower demand from refineries. We expect the company to announce cash dividend of PKR 1.25/share along with the result, bringing total 1HFY18 cash dividend to PKR 3.00/share.

### ...bringing 1HFY18 EPS to PKR 7.71, up by +11%YoY

As a result, earnings for 1HFY18 are expected to augment by +11%YoY to PKR 34.7bn (EPS PKR 7.71), on the back of a) +0.2%/+46%YoY increase in oil/gas/LPG production, b) +21%YoY rise in oil prices and, c) lower exploration expense in the absence of dry well cost during 1QFY17.

Exhibit:

**Financial Highlights**

PKRmn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Net Sales	45,742	41,516	10%	89,704	81,081	11%
Royalty	4,930	4,521	9%	9,362	8,828	6%
Operating Expenses	14,143	15,277	-7%	28,098	28,356	-1%
Gross Profit	26,211	21,291	23%	51,372	43,061	19%
Other Income	3,633	4,248	-14%	6,744	9,309	-28%
Exploration Expense	4,603	3,868	19%	6,127	8,189	-25%
PBT	23,090	19,668	17%	47,479	40,503	17%
PAT	16,163	15,377	5%	33,172	30,008	11%
EPS (PKR)	3.76	3.58		7.71	6.98	
DPS (PKR)	1.25	1.00		3.00	2.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9 mn

**Oil production down by 12%YoY in 2QFY18 while gas production remained stagnant**

OGDC reported a 12%YoY decline in oil production to 40,357bopd during 2QFY18 owing to lower demand from refineries post closure of FO based power plants leading to lower production from Nashpa and Tal block. Gas production remained stagnant at 1,205mmcfcd on the back of lower production Qadirpur and Uch while higher production from Adhi and Maramzai supported the decline in production. LPG production increased by +40%YoY during 2QFY18 on the back of commencement of production from new discoveries in Dec-17.

Exhibit:

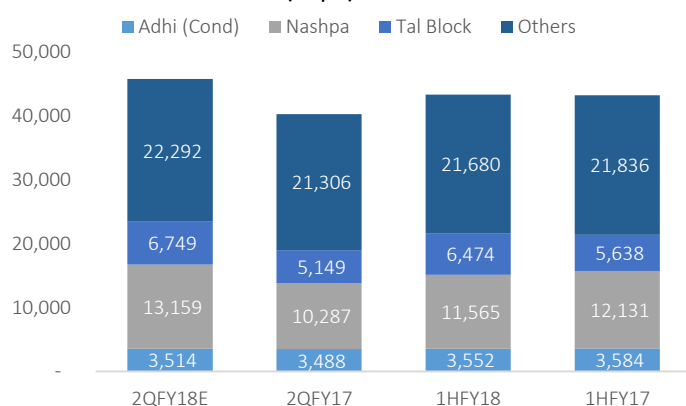
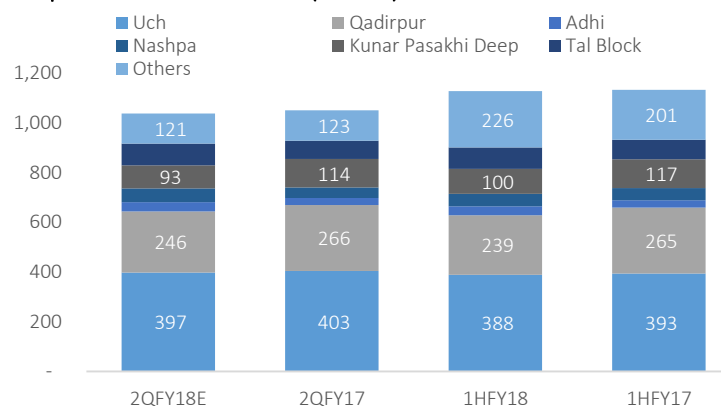
**Oil Production for 2QFY18 - (bopd)**

Exhibit:

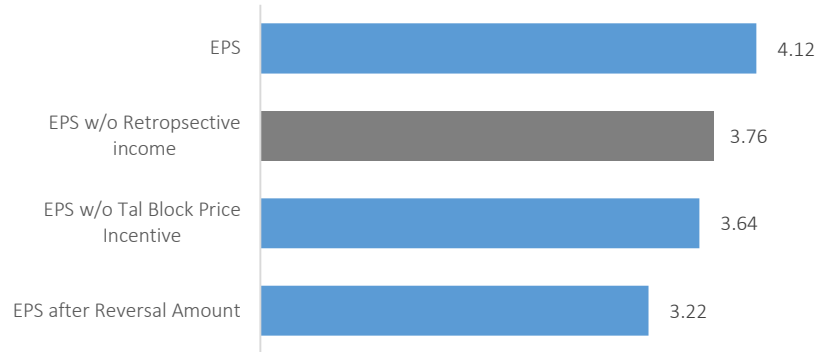
**Gas production for 2QFY18 - (mmcfcd)**

Source: IGI Research, Company Financials

**Tal block price reversion to drag EPS down to PKR 3.22**

Following reversion in Tal block price to PP97 by Pakistan Oilfield Limited (POL) in 2QFY18 post imposition of windfall levy by GoP through amendment in PP12, we have not included the retrospective amount of PKR 3.6bn (PKR 0.36/share). However, if the company reverts price back to PP97 for Tal block similar to POL and retrospective impact of PKR 4.25bn, earnings are expected to drag down to PKR 3.22/share in 2QFY18.

Exhibit:  
**2QFY18 EPS estimate breakup for Tal block impact**



Source: IGI Research, Company Financials, PSX,

**Recommendation**

We have a **'BUY'** call on OGDC with our Dec-18 target price of PKR 194.7/share, offering +17.7% upside from its last close. The company is currently trading at FY18E P/E of 8.8x and offers a decent dividend yield of 3.9%.

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**Time Horizon:** Dec – 2018

**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)

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