

# Day Break

Wednesday, 27 April 2016

## Company Update

### Oil & Gas Dev.Co

Oil &amp; Gas Exploration Companies

Recommendation	BUY
Target Price	160.3
Last Closing	119.3
Upside	34%

### Market Data

Bloomberg Tkr.	OGDC PA
Shares (mn)	4,300.9
Market Cap (PKRbn   USDmn)	513.3   4,903.7
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	14.7	(13.5)	(33.4)
Low	99.7	95.6	95.6
High	119.1	138.4	194.1

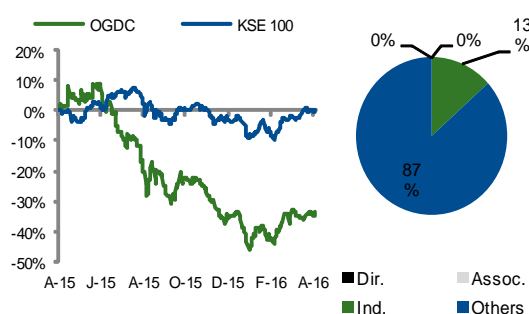
### Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	210.6	164.2	181.0	195.9
Net Income	87.2	62.9	66.0	71.6
EPS (PKR)	20.3	14.6	15.3	16.6
DPS (PKR)	7.8	5.0	6.0	6.5
Total Assets	553.8	573.4	621.9	669.1
Total Equity	442.5	485.0	527.0	572.7

### Key Financial Ratios

ROE (%)	20%	13%	13%	12%
P/E (x)	5.9	8.2	7.8	7.2
P/B (x)	1.2	1.1	1.0	0.9
DY (%)	6.5	4.2	5.0	5.4

### 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 &amp; IGI Research

Analyst

**Abdullah Farhan**  
 abdullah.farhan@igi.com.pk  
 Tel: (+92-21) 111-234-234 Ext.: 912

## Oil & Gas Exploration

### OGDC: Higher Exploration Cost Drags Down Profitability

- Oil & Gas Development Company (OGDC) announced 3QFY16 result posting a drop of 54%YoY in earnings to PKR 15.9bn (EPS PKR 3.71) compared to PKR 19.5bn (EPS PKR 4.54) in same period last year.
- Oil revenues witnessed a drop of 33%YoY in 3QFY16 to PKR 11bn owing to 42%YoY decline in Arab Light prices and a trivial fall of 3% in oil production. Gas revenue posted a decline of 2%YoY to PKR 30bn in 3QFY16 owing to 16%YoY dip in production, primarily from KunarPasakhi Deep (KPD), Qadirpur and Uch-I & II.
- OGDC is currently trading at FY16E P/E multiple of 8.2x, providing +34% upside to our Dec-15 TP of PKR 160/share with a dividend yield of 4.2%. We recommend 'BUY' call on the stock.

### Earnings Nosedive by 54%YoY to PKR 2.61/share in 3QFY16

Oil & Gas Development Company (OGDC) announced 3QFY16 result posting a drop of 54%YoY in earnings to PKR 15.9bn (EPS PKR 3.71) compared to PKR 19.5bn (EPS PKR 4.54) in same period last year. This significant drop in earnings is mainly attributable to 2.8xYoY rise in exploration cost and +22%YoY increase in operating expenses. Cumulative earnings for 9MFY16 stand at PKR 43.5bn (EPS PKR 10.11), depicting a decline of 36%YoY. Company also announced a cash dividend of PKR 0.50/share in 3QFY16 along with the result, taking 9MFY16 cumulative dividend payout to PKR 3.20/share.

### Exhibit: OGDC Production

	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil (bopd)	41,717	41,094	2%	40,443	41,381	-2%
Gas (mmcf)	963	1,144	-16%	1,061	1,186	-11%
LPG (Tons/day)	388	315	23%	336	271	24%

Source: IGI Research and Company Financials

### Oil: Price Drops as Production Picks-up

Oil revenues witnessed a drop of 33%YoY in 3QFY16 to PKR 11bn owing to 42%YoY decline in Arab Light prices and a trivial fall of 3% in oil production. Tal block, Adhi and Nashpa contributed 51% in total oil production during the quarter (52% in 9MFY16). Realized price for 9MFY16 is USD 38.8/bbl, as disclosed by management.

Wednesday, 27 April 2016

### Gas: Revenues shrink as Production Plunges

Similarly, gas revenue posted a decline of 2%YoY to PKR 30bn in 3QFY16 owing to 16%YoY dip in production, primarily from KunarPasakhi Deep (KPD), Qadirpur and Uch-I & II due to lower in take from Liberty Power Limited, Engro Powergen Qadirpur and Sui Southern Gas Company and tripping of turbines at Uch-II Power Plant. According to our estimates, Uch and Qadirpur contributed 55% to total gas production in 3QFY16 (58% in 9MFY16). Realized gas price stood at PKR 256.2/mmcf in 9MFY16.

#### Exhibit: OGDGC Revenues

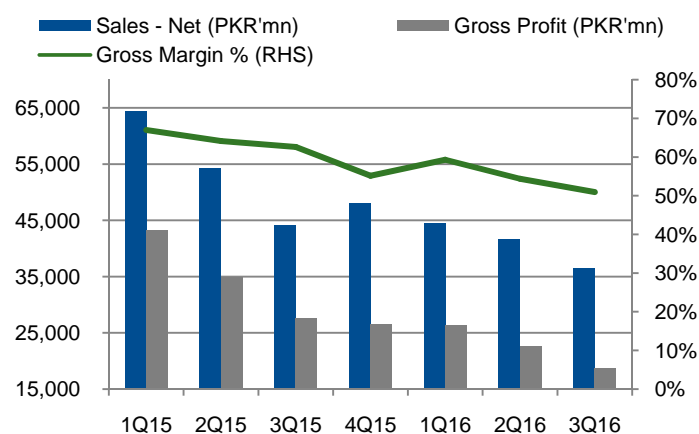
PKR'mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Oil	11,357	17,016	-33%	43,464	74,693	-42%
Gas	30,020	30,744	-2%	95,218	102,505	-7%
LPG	1,739	1,794	-3%	4,899	5,245	-7%
Total	43,129	49,581	-13%	143,925	182,842	-21%

Source: IGI Research and Company Financials

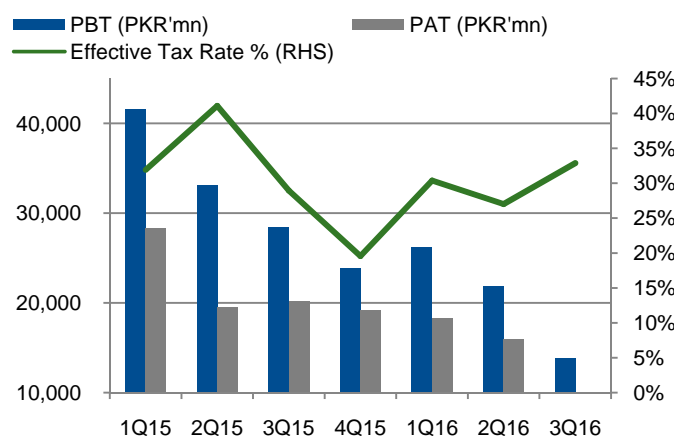
#### Exhibit: Realized Price

	9MFY16	9MFY15	YoY
Oil (USD/bbl)	38.83	66.59	-42%
Gas (PKR/mmcf)	256.23	273.09	-6%

#### Exhibit: Gross Profit in relation with Sales

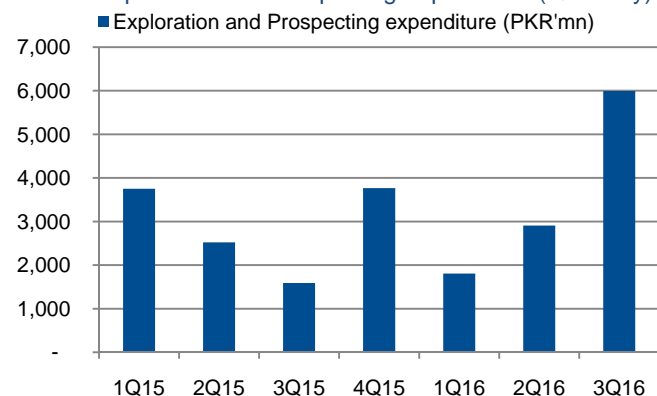


#### Exhibit: PBT, PAT and Effective Tax Rate



Source: IGI Research, Company's Financials

#### Exhibit: Exploration and Prospecting Expenditure (Quarterly)



Source: IGI Research, Company's Financials

Wednesday, 27 April 2016

### High Exploration Cost significantly Diluting Earnings During 3QFY16

Company's earnings took a major hit as a result of 2.8xYoY hike in exploration and prospecting expense to PKR 6.0bn in 3QFY16 as compared to PKR 1.6bn in the same period last year, owing to dry well cost incurred. Exploration cost had an after tax impact of PKR 1.0/share on company's earning in 3QFY16.

### Additional Oil & Gas Production Expected From 4QFY16 Onwards

According to management, production from Mardankhel in Tal block is likely to come online from 4QFY16, which is anticipated to contribute additional 2% and 1% to oil and gas production, respectively in FY17. Furthermore, with expected completion of KunnarPasakhi Deep-Tando Allah Yar project in 4QFY16, we anticipate oil and gas volumes to pick up from 1QFY17. We expect KPD-TAY project to contribute additional production of 4,000 bbls of oil, 125mmcf of gas and 410 tons of LPG. Our oil price assumption is USD 38/40/bbl for FY16/FY17 with long term price of USD 50/bbl.

#### Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	33.0	35.0	45.0	13.9	14.5	15.9	155.1
Base	38.0	40.0	50.0	14.6	15.3	16.6	160.3
Bull	43.0	45.0	55.0	15.3	16.1	17.4	165.5

Source: IGI Research

### Recommendation

OGDC is currently trading at FY16E P/E multiple of 8.2x, providing +34% upside to our Dec-15 TP of PKR 160/share with a dividend yield of 4.2%. We recommend 'BUY' call on the stock.

#### Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Net Sales	36,525	44,049	-17%	122,711	162,693	-25%
Royalty	3,891	4,963	-22%	13,585	18,484	-27%
Operating Expenses	13,416	11,023	22%	39,984	37,156	8%
Gross Profit	18,615	27,576	-32%	67,670	105,532	-36%
Other Income	3,345	5,270	-37%	11,640	15,491	-25%
Exploration and Prospecting	5,996	1,588	277%	10,709	7,861	36%
Finance Cost	420	658	-36%	1,253	1,901	-34%
WPP Fund	729	1,494	-51%	3,259	5,427	-40%
PBT	13,848	28,395	-51%	61,924	103,105	-40%
PAT	9,294	20,178	-54%	43,500	68,006	-36%
EPS	2.16	4.69	-54%	10.11	15.81	-36%
DPS	0.50	1.75		3.20	6.25	

Source: IGI Research and Company Financials

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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

This document has been 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.

### 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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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](http://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- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### 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