

Day Break

Monday, 22 August 2016

Company Update

Oil & Gas Dev.Co

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	161.8
Last Closing	141.9
Upside	14%

Market Data

Bloomberg Tkr.	OGDC PA
Shares (mn)	4,300.9
Market Cap (PKRbn USDmn)	610.2 5,828.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(3.8)	37.7	(4.5)
Low	133.4	99.7	95.6
High	147.3	147.3	149.1

Key Company Financials

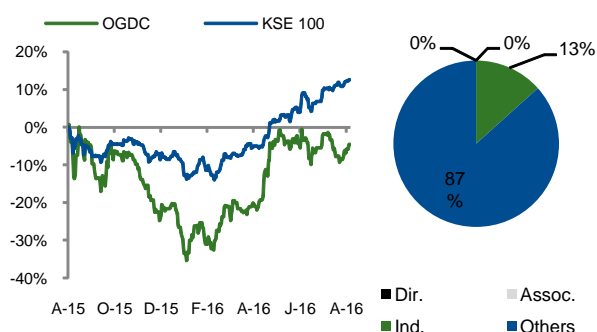
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	210.6	161.4	197.7	199.6
Net Income	87.2	56.2	72.6	72.5
EPS (PKR)	20.3	13.1	16.9	16.9
DPS (PKR)	7.8	4.7	6.4	6.4
Total Assets	553.8	565.0	620.1	666.1
Total Equity	442.5	477.3	523.5	569.7

Key Financial Ratios

ROE (%)	20%	12%	14%	13%
P/E (x)	7.0	10.9	8.4	8.4
P/B (x)	1.4	1.3	1.2	1.1
DY (%)	5.5	3.3	4.5	4.5

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

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Oil & Gas Development Company Lower Oil Price to Trim Down Earnings to PKR 13.07/share in FY16

- Oil & Gas Development Company's (OGDC) board meeting is scheduled on 24th Aug-16, where we expect company to post earnings of PKR 12.7bn (EPS PKR 2.96) down by 34%YoY in 4QFY16 as compared to PKR 19.2bn (EPS PKR 4.47) in the same period last year.
- Production from Mardankhel in Tal block is likely to come online from 1QFY17, 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 1QFY17.
- The scrip is currently trading at FY17 P/E multiple of 8.4x. With our Dec-16 TP of PKR 162/share, the stock offers upside of +14%, hence we maintain 'BUY' call on the scrip.

Earnings to Clock in at PKR 2.96/share in 4QFY16

Oil & Gas Development Company's (OGDC) board meeting is scheduled on 24th Aug-16, where we expect company to post earnings of PKR 12.7bn (EPS PKR 2.96) down by 34%YoY in 4QFY16 as compared to PKR 19.2bn (EPS PKR 4.47) in the same period last year. We attribute this decline in earnings primarily to a) 30%YoY fall in oil prices to USD 42.6/bbl, b) lower dry well cost in 4QFY16, and c) 3%YoY drop in other income to PKR 3.6bn owing to lower interest rate environment. On quarterly basis, we expect earnings to improve on the back of +44%QoQ increase in oil prices and higher gas production from Uch and Qadirpur.

FY16 Earnings to Clock in at PKR 13.07/share

Profitability in FY16 is forecasted to drop by 35%YoY to PKR 56.2bn (EPS PKR 13.07) as compared to PKR 87bn (EPS PKR 20.29) in FY15. Along with the result, we expect the company to pay cash dividend of PKR 1.5/share in 4QFY16, taking total dividends for FY16 to PKR 4.7/share.

Exhibit: OGDC Production

	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Oil (bopd)	38,947	40,488	-4%	37,615	40,818	-8%
Gas (mmcf/d)	1,187	1,052	13%	1,177	1,143	3%
LPG (Tons/day)	340	319	7%	337	255	32%

Source: IGI Research and Company Financials, PPIS

Monday, 22 August 2016

Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Net Sales	38,703	47,932	-19%	161,414	210,625	-23%
Royalty	4,362	5,253	-17%	17,947	23,737	-24%
Operating Expenses	13,026	15,779	-17%	53,010	52,935	0%
Gross Profit	20,735	26,435	-22%	88,405	131,967	-33%
Other Income	3,569	3,695	-3%	15,209	19,186	-21%
Exploration and Prospecting	3,203	3,766	-15%	13,912	11,628	20%
Finance Cost	400	649	-38%	1,653	2,550	-35%
WPP Fund	999	1,259	-21%	4,259	6,686	-36%
PBT	18,976	23,920	-21%	80,900	127,025	-36%
PAT	12,714	19,243	-34%	56,214	87,249	-36%
EPS (PKR)	2.96	4.47	-34%	13.07	20.29	-36%
DPS (PKR)	1.50	1.50		4.70	7.75	

Source: IGI Research and Company Financials

Additional Oil & Gas Production Expected From 1QFY17 Onwards

Production from Mardankhel in Tal block is likely to come online from 1QFY17, 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 1QFY17, we also 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 45/bbl for FY17 with long term price of USD 50/bbl.

Recommendation

The scrip is currently trading at FY17 P/E multiple of 8.4x. With our Dec-16 TP of PKR 162/share, the stock offers upside of +14%, hence we maintain '**BUY**' call on the scrip.

Analyst Certification

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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[^] 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

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