

Day Break

Friday, 24 April 2020



COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price: Dec/20	169.5		
Last Closing: 22-Apr-20	88.7		
Upside (%)	91.1		
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:	8M		
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)	381.4	2,471.1	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(35.5)	(23.5)	(33.5)
Lo	75.0	75.0	75.0
Hi	149.1	154.2	154.2

Key Company Financials

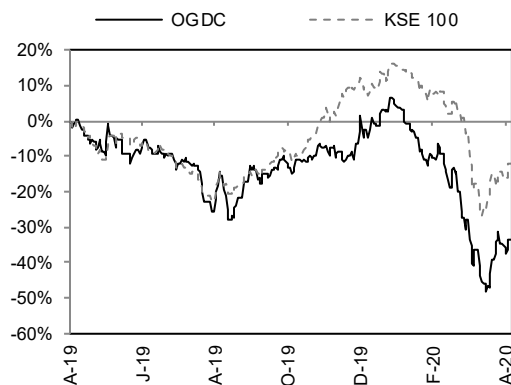
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	261.5	249.3	241.6	248.1
Net Income	118.4	97.9	93.6	94.8
EPS (PKR)	27.5	22.8	21.8	22.0
DPS (PKR)	11.0	9.0	8.0	8.3
Total Assets	766.6	777.7	831.6	886.8
Total Equity	625.4	682.5	739.9	798.1

Key Financial Ratios

ROE (%)	14.8	20.1	15.0	13.2
P/E (x)	3.2	3.9	4.1	4.0
P/B (x)	0.7	0.6	0.6	0.5
DY (%)	12.4	10.1	9.0	9.3

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

OGDC: Lower oil prices and production to drag EPS down by 7%YoY to PKR 6.18; DPS PKR 2.0

- ✓ Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 23th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 26.58bn (EPS PKR 6.18), down by 7%YoY,
- ✓ We estimate decline in earnings on the back a) 15%YoY decline in oil prices, b) 7%/13% drop in oil/gas production and, c) higher operating expenses. However earnings decline is likely to be limited by a) +11%YoY PKR depreciation against greenback and, b) higher contribution of earnings from MARI. To highlight, earnings could clock in higher if OGDC books retrospective price impact of Uch gas field notified in Dec-19 leading to rise in EPS to PKR 6.87
- ✓ On a quarterly basis, earnings are expected to increase by +3%QoQ on the back of +49%QoQ rise in other income and 69%QoQ drop in exploration cost,
- ✓ We recommend a 'BUY' stance on OGDC with our Dec-20 target price of PKR 169.5/share offering 91% upside from last close. The company is currently trading at FY21 P/E of 4.1x.

Earnings to clock in at PKR 6.18/share for 3QFY20, down by 7%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 23th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 26.58bn (EPS PKR 6.18), down by 7%YoY, compared to PKR 28.56bn (EPS PKR 6.64) in the same period last year. We estimate decline in earnings on the back a) 15%YoY decline in oil prices, b) 7%/13% drop in oil/gas production and, c) higher operating expenses. However earnings decline is likely to be limited by a) +11%YoY PKR depreciation against greenback and, b) higher contribution of earnings from MARI. To highlight, earnings could clock in higher if OGDC books retrospective price impact of Uch gas field notified in Dec-19 leading to rise in EPS to PKR 6.87. This brings total profitability for 9MFY20 to PKR 79.76bn (EPS PKR 18.55) down by 7%YoY.

We expect cash dividend payout of PKR 2.00/share for the 3QFY20 bringing total cash payout for 9MFY20 to PKR 6.25/share. Dividend payout is expected to remain on the lower side due to requirement of cash buffer amid Covid-19 outbreak and liquidity crunch due to substantial rise in receivables.

Exhibit: OGDC Financial Highlights

PKRmn	3QFY20E	3QFY19	YoY	9MFY20E	9MFY19	YoY
Net Sales	60,380	65,149	-7%	193,822	192,047	1%
Royalty	6,671	7,256	-8%	21,887	21,495	2%
Operating Expenses	16,430	15,403	7%	46,989	45,037	4%
Gross Profit	36,904	42,078	-12%	123,757	124,314	0%
Other Income	7,559	6,003	26%	15,486	17,853	-13%
Exploration and Prospecting	1,974	2,042	-3%	12,400	6,524	90%
Finance Cost	774	427	81%	2,274	1,256	81%
Share of profit from associate	1,548	1,150	35%	4,498	3,362	34%
PBT	39,669	43,254	-8%	118,505	127,994	-7%
PAT	26,578	28,556	-7%	79,763	85,312	-7%
EPS (PKR)	6.18	6.64		18.55	19.84	
DPS (PKR)	2.00	2.75		6.25	8.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

Lower exploration cost and PKR depreciation to lift earnings on quarterly basis

On a quarterly basis, earnings are expected to increase by +3%QoQ on the back of +49%QoQ rise in other income on account of exchange gains due to PKR depreciation towards end of Mar-20. Exploration cost is likely to remain on lower side as OGDC booked 5 dry well cost in 2QFY20 including Rangunwari-1 which was encountered as dry in Jan-20 as per PPIS data. Thus we have not incorporated dry well cost related to Rangunwari in 3QFY20 leading to 69%QoQ drop in exploration expense. However, two temporarily suspended wells in 2QFY20 namely Dhamach and Garhi X-2 were not booked during 2QFY20. If recognized in 3QFY20 then earnings could witness attrition of PKR 3.6bn or PKR 0.83/share. Support to earnings is also expected from +5%QoQ rise in gas production due to higher production from Uch gas field.

Oil and Gas production down by 7%/13%YoY during 3QFY20

Total gas production for the Company fell down by 13%YoY on the back of lower production from Uch and Qadirpur. This brings total gas production for 9MFY20 to 1,101mmcf down by 14%YoY. Oil production also fell by 7%YoY on account of lower production from Nashpa, Kunner, Adhi and Tal block. This brings total oil production to 38,199bopd down by 7%YoY for 9MFY20.

Exhibit: OGDC oil production (bopd)

Oil production remained low due to lower production from Nashpa, Kunner, Tal Block and Adhi

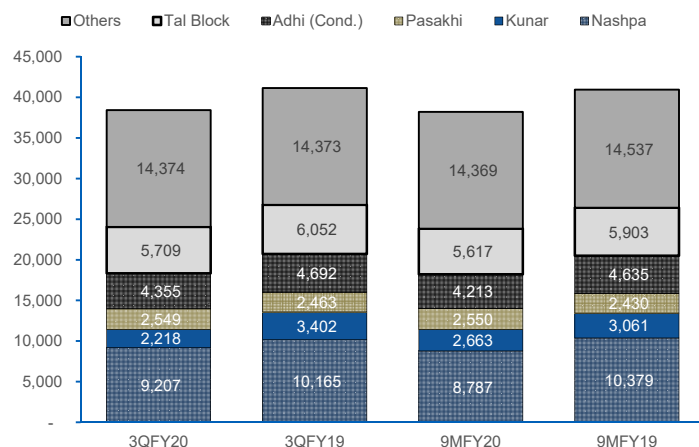
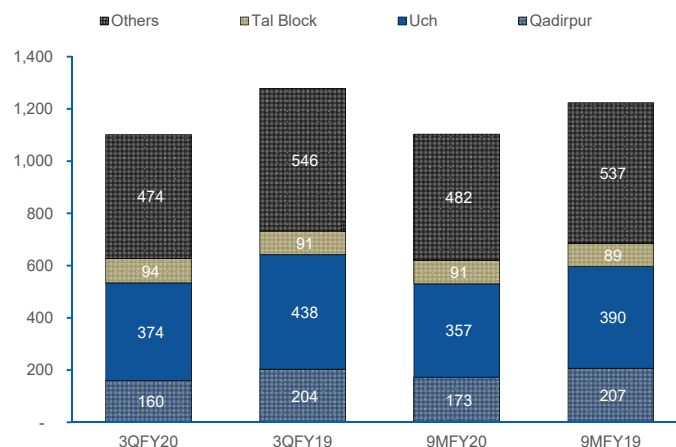


Exhibit: OGDC gas production (mmcf)

Gas production remained low due to lower production from Uch and Qadirpur



Recommendation

We recommend a 'BUY' stance on OGDC with our Dec-20 target price of PKR 169.5/share offering 91% upside from last close. The company is currently trading at FY21 P/E of 4.1x.