

Day Break

Thursday, 24 October 2019

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price:	Dec/20	186.0	
Last Closing:	23-Oct-19	125.7	
Upside:		47.9	
Valuation Methodology:	Reserve based -	Discounted Cash Flow	
Time Horizon:		14M	

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)	540.8	3,456.4	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(3.3)	(15.1)	(17.2)
Lo	104.6	104.6	104.6
Hi	130.1	144.9	159.7

Key Company Financials

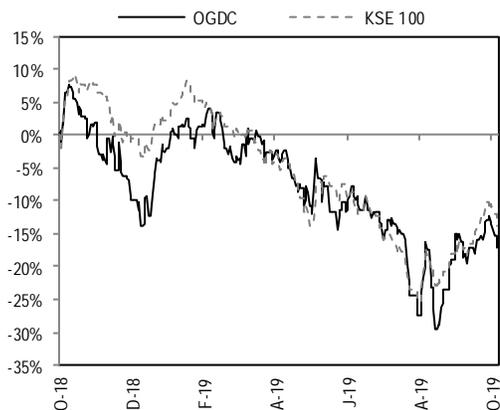
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	261.5	289.8	276.6	258.5
Net Income	118.4	123.3	115.9	105.3
EPS (PKR)	27.5	28.7	27.0	24.5
DPS (PKR)	11.0	11.5	10.8	9.8
Total Assets	766.6	797.0	864.2	923.6
Total Equity	625.4	697.8	768.6	833.1

Key Financial Ratios

ROE (%)	14.8	20.1	18.6	15.8
P/E (x)	4.6	4.4	4.7	5.1
P/B (x)	1.0	0.9	0.8	0.7
DY (%)	8.7	9.1	8.6	7.8

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

OGDC: Higher exchange rate and other income to lift 1QFY20 EPS to PKR 6.68, DPS PKR 2.50

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 25th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 28.73bn (EPS PKR 6.68), up by +7%YoY,
- We estimate incline in earnings on the back of a) +28%YoY PKR depreciation and, b) higher other income on account of increased interest income on investments and bank deposits. However, growth in earnings is likely to remain limited due to lower oil/gas/LPG production which is down by 8%/7%/10%YoY and 16%YoY drop in oil prices,
- We recommend a 'BUY' stance on OGDC with our Dec-20 target price of PKR 186.01/share offering 48% upside from last close. The company is currently trading at FY20 P/E of 4.4x.

Earnings to clock in at PKR 6.68/share for 1QFY20, up by +7%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 25th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 28.73bn (EPS PKR 6.68), up by +7%YoY, compared to PKR 26.74bn (EPS PKR 6.22) in the same period last year. We estimate incline in earnings on the back of a) +28%YoY PKR depreciation and, b) higher other income on account of increased interest income on investments and bank deposits in the absence of substantial exchange gains.

However, growth in earnings is likely to remain limited due to lower oil/gas/LPG production which is down by 8%/7%/10%YoY and 16%YoY drop in oil prices. The company is expected to book dry well cost relating to Pirano-01 (Khwari) and Shawa X-1 (Nashpa Block) whereas prospecting expense is likely to remain elevated amid +40%YoY rise in seismic activity on new exploratory wells. We expect to announce cash dividend of PKR 2.5/share along with the result. Improvement in cash position may lead to higher payout during the quarter.

On quarterly basis, earnings are expected to drop by 13%QoQ on the back of 4%/6%/6%QoQ drop in oil/gas/LPG production and 66%QoQ decline in other income in the absence of substantial exchange gains. Decline in earnings is likely to remain limited due to depreciation of PKR against USD of 8%QoQ on average and 9%QoQ drop in exploration cost.

Exhibit:

OGDC Financial Highlights

PKRmn	1QFY20E	1QFY19	YoY	4QFY19	QoQ
Net Sales	71,091	61,799	15%	69,434	2%
Royalty	7,976	6,876	16%	7,840	2%
Operating Expenses	16,872	14,862	14%	18,419	-8%
Gross Profit	45,800	39,678	15%	42,748	7%
Other Income	4,840	4,098	18%	14,435	-66%
Exploration and Prospecting	5,453	1,961	178%	5,975	-9%
Finance Cost	430	411	5%	436	-1%
WPP Fund	2,240	2,072	8%	2,558	-12%
PBT	42,887	39,363	9%	48,606	-12%
PAT	28,734	26,735	7%	33,074	-13%
EPS (PKR)	6.68	6.22		7.69	
DPS (PKR)	2.50	2.75		2.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

Recommendation

We recommend a 'BUY' stance on OGDC with our Dec-20 target price of PKR 186.01/share offering 48% upside from last close. The company is currently trading at FY20 P/E of 4.4x.

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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)
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Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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