

Day Break

Tuesday, 20 February 2018

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	194.7
Last Closing: 19-Feb-18	167.2
Upside:	16.5
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)	719.2 6,502.0
Exchange	KSE 100
Price Info.	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

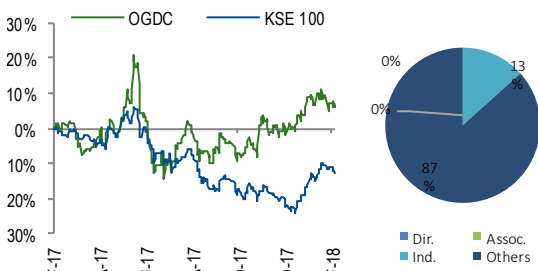
Period End: Jun

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	10.3	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)	11.3	8.9	7.2	7.5
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	3.6	6.1	4.8	4.6

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: Tal block income booked in 2QFY18 while reserve replacement remains key concern; 'BUY' Intact

- OGDC announced financial results for 2QFY18 with earnings clocking in at PKR 19.66bn (EPS PKR 4.57) up by +28%YoY as compared to PKR 15.38bn (EPS PKR 3.58) in the same period last year.
- Growth in earnings is also attributable to a) +25%YoY rise in oil prices, c) +2.68xYoY incline in share of profit from associates to PKR 0.99bn likely on the back of higher profit from Mari Petroleum Company Limited (MARI) and, c) retrospective amount of PKR 3.80bn in respect of three fields in Tal block granted conversion to Petroleum Policy 2012 (PP12) for the period Jul-15 to Dec-17.
- OGDC's management disclosed in its conference call that the company unlike Pakistan Oilfields Limited (POL) booked retrospective amount to the tune of PKR 3.8bn having estimated after tax EPS impact of PKR 0.38.
- We maintain our 'BUY' call on OGDC with our Dec-18 target price of PKR 194.7/share, offering +16.5% upside from its last close.

Earnings clocked in at PKR 4.57/share during 2QFY18, DPS of PKR 3.00

Oil & Gas Development Company Limited (OGDC) announced its financial results for 2QFY18 with earnings clocking in at PKR 19.66bn (EPS PKR 4.57) up by +28%YoY as compared to PKR 15.38bn (EPS PKR 3.58) in the same period last year. This brings cumulative earnings for 1HFY18 to PKR 36.67bn (EPS PKR 8.52) compared to PKR 30.01bn (EPS PKR 6.98) in the corresponding period last year. The Company announced a higher than anticipated cash dividend of PKR 3.00/share along with the result, bringing total 1HFY18 cash dividend to PKR 4.75/share.

In our view, earnings growth is a factor of a) +25%YoY rise in oil prices, b) +2.68xYoY incline in share of profit from associates to PKR 0.99bn likely on the back of higher profit from Mari Petroleum Company Limited (MARI) and, c) retrospective amount of PKR 3.80bn in respect of three fields in Tal block granted conversion to Petroleum Policy 2012 (PP12) for the period Jul-15 to Dec-17. Earnings growth was hampered by +51%YoY rise in exploration cost as OGDC booked 3 dry well cost during 2QFY18 namely Pirkoh Deep-01, Qadirwali-1 and Ranipur-01.

Exhibit:

Financial Highlights

PKRmn	2QFY18	2QFY17	YoY	1HFY18	1HFY17	YoY
Net Sales	51,998	41,516	25%	95,960	81,081	18%
Royalty	5,530	4,521	22%	9,962	8,828	13%
Operating Expenses	14,325	15,277	-6%	28,280	28,356	0%
Gross Profit	31,723	21,291	49%	56,883	43,061	32%
Other Income	3,633	4,248	-14%	6,744	9,309	-28%
Exploration expense	5,841	3,868	51%	7,365	8,189	-10%
Share of profit	988	369	168%	1,445	922	57%
PBT	27,640	19,668	41%	52,029	40,503	28%
PAT	19,662	15,377	28%	36,672	30,008	22%
EPS (PKR)	4.57	3.58		8.52	6.98	
DPS (PKR)	3.00	1.00		4.75	2.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

Tal block incentive booked in 2QFY18 as management eyes favorable decision on windfall levy imposition dispute

OGDC's management disclosed in its conference call that the company unlike Pakistan Oilfields Limited (POL) booked retrospective amount of PKR 3.8bn having an estimated after tax EPS impact of PKR 0.38. The management stated that OGDC has a legal right on the incremental revenues already availed and will challenge the decision in the court of law. So far the Company has booked incremental revenues of PKR 8.45bn in respect of price incentive offered for Maramzai, Mamikhel and Makori East in Tal block. However, Company's management is of the view that even if the incentive is withdrawn, the impact would only be applied prospectively and not retrospectively, thus there would be no reversal of incentive income already booked from three fields of Tal block.

Higher payout may continue if foreign ventures are not feasible

The Company increased its payout ratio to 66% from previous 35%-45% (cash dividend of PKR 3.00/share) during 2QFY18. Higher dividend payout came as a result of healthy cash position of PKR 9.6bn (PKR 2.23/share) post settlement of PIBs by GoP. The management is of the view that if no feasible ventures in exploration assets are found outside Pakistan or investment in downstream sector within Pakistan, OGDC may continue with a higher dividend payout going forward. However, to note OGDC has already signed MoUs with ENI, MOL and Gazprom for oil and gas exploration in Asia, Africa and Middle East. If the Company continues with the current payout trend we estimate overall FY18F cash dividend could reach PKR 10.25/share leading to a dividend yield of 6.1%.

Crude oil exports allowed up to 0.5mn bbls, but unlikely to be utilized

The company has obtained crude oil export permission from GoP up to 0.5mn bbls and may further enhance the limit if local refineries are unable to consume domestic crude oil production. However the management believes that there won't be any need for exports as demand from local refineries has picked up after dwindling post imposition of ban on FO based power plants in Oct-17.

Production delays and lower reserve replacement remain a concern

OGDC's oil and gas production stood at 41,310bopd and 1,009mmcf/d during 1H FY18 compared to 42,880bopd and 1,048mmcf/d, respectively, in the same period last year owing to lower production from Nashpa and Tal block for oil and natural gas and decline in Qadirpur for gas. Although the Company has been at the forefront in terms of aggressive exploration and has the highest number of discoveries among IGI E&P universe but the size of discoveries remain insignificant with respect to total production of OGDC. This led to total reserve replacement ratio of 7% in FY17 which is lowest among IGI E&P universe. Furthermore, production commencement from development projects such as Nashpa-Mela and KPD-TAY have been on a delay for more than a year and Nashpa-Mela project is now pushed ahead to Feb-18.

Recommendation

We maintain our 'BUY' call on OGDC with our Dec-18 target price of PKR 194.7/share, offering +16.5% upside from its last close. We have raised our DPS expectation for FY18 to PKR 10.25. However, continuation of higher payout remains contingent on new investments in exploration assets. The company is currently trading at FY18E P/E of 8.9x and offers a decent dividend yield of 6.1%.

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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 – 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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