

# Flash Note

Friday, 24 April 2020

## Oil & Gas - Exploration Companies

### Oil & Gas Development Company Limited (OGDC)

#### Heft exchange gains and likely retrospective price impact of Uch gas field lifts 3QFY20 EPS by +7%YoY to PKR 7.08; Nil cash payout

- ✓ Oil & Gas Development Company Limited (OGDC) announced its financial results for 3QFY20 with earnings clocking in at PKR 30.46bn (EPS PKR 7.08) as compared to PKR 28.56bn (EPS PKR 6.64) in the same period last year, up by +7%YoY. This brings total profitability for 9MFY20 to PKR 83.65bn (EPS PKR 19.45) down by 2%YoY compared to PKR 85.31bn (EPS PKR 19.84) in the same period last year.
- ✓ OGDC did not announce any cash dividend for 3QFY20 taking to total cash payout in 9MFY20 to PKR 4.25/share. This is likely due substantial rise in circular debt creating cash concerns and cautious stance to create cash buffer amid recent tumble in international oil price and local production amid Covid-19 lockdown.
- ✓ We attribute this incline in earnings during 3QFY20 to a) higher other income amid exchange gains, b) retrospective price impact of Uch gas field notified by OGRA amounting to PKR 5.88bn, in our view and, c) higher share of profit from Mari Petroleum Company Limited (MARI). However earnings growth was limited by +56%YoY rise in exploration cost.
- ✓ Net Revenues remained flat at PKR 64.97bn during 3QFY20 compared to PKR 65.15bn in the similar period last year, likely on the back of +11%YoY PKR depreciation against greenback countered by 17%YoY drop in oil prices and lower oil/gas production. Support to revenues came as OGDC recorded retrospective amount of PKR 5.88bn relating to notification of Uch-II price for prior years (Dec-13 to Dec-19) by OGRA.
- ✓ Operating costs are marginally up by +3%YoY to PKR 15.82bn during 3QFY20 as against PKR 15.40bn in the same period last year likely on account of higher amortization expense.
- ✓ Exploration expense augmented by +51%YoY to PKR 3.08bn during 3QFY20 compared to PKR 2.04bn in the corresponding period last year likely owing to dry well cost booked against Katiar-1 (Nim Block). Exploration cost remained on the higher side also due to higher prospecting expense amid increased seismic activity, in our view. OGDC also reported 2 wells in 2QFY20 which were temporarily suspended and not booked in 2QFY20, which may have likely been booked as dry during the quarter, however await further clarity from the management.
- ✓ Other income augmented by +46%YoY to PKR 8.79bn during 3QFY20 compared to PKR 6.0bn in the similar period last year likely owing to hefty exchange gains amid PKR depreciation.
- ✓ Finance cost surged by +97%YoY to PKR 0.84bn during 3QFY20 compared to PKR 0.43bn in the same period last year.
- ✓ Effective tax rate stood at 31.5% during 3QFY20 as against 34.0% in the same period last year (2QFY20: 33.9%) bringing total effective tax rate for 9MFY20 to 32.2% compared to 33.3% in the corresponding period last year.

#### Exhibit: OGDC Financial Highlights

PKRmn	3QFY20	3QFY19	YoY	2QFY20	QoQ	9MFY20	9MFY19	YoY
Net Sales	64,972	65,149	0%	67,237	-3%	198,413	192,047	3%
Royalty	7,145	7,256	-2%	7,477	-4%	22,360	21,495	4%
Operating Expenses	15,823	15,403	3%	15,674	1%	46,383	45,037	3%
Gross Profit	41,502	42,078	-1%	43,662	-5%	128,355	124,314	3%
Other Income	8,787	6,003	46%	5,082	73%	16,714	17,853	-6%
Exploration and Prospecting	3,077	2,042	51%	6,463	-52%	13,502	6,524	107%
Finance Cost	840	427	97%	755	11%	2,340	1,256	86%
WPP Fund	2,341	2,277	3%	2,060	14%	6,490	6,737	-4%
Share of profit from associate	1,475	1,150	28%	1,457	1%	4,424	3,362	32%
PBT	44,479	43,254	3%	39,148	14%	123,315	127,994	-4%
PAT	30,460	28,556	7%	25,868	18%	83,645	85,312	-2%
EPS (PKR)	7.08	6.64		6.01		19.45	19.84	
DPS (PKR)	-	2.75		1.75		4.25	8.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

#### Analyst

Abdullah Farhan

[abdullah.farhan@igi.com.pk](mailto:abdullah.farhan@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 912