

Flash Note

Wednesday, 26 February 2020

Oil & Gas - Exploration Companies

Oil & Gas Development Company Limited (OGDC)

Absence of exchange gains and higher exploration cost drags 2QFY20 EPS to PKR 6.01 down by 14%YoY; DPS 1.75

- ✓ Oil & Gas Development Company Limited (OGDC) announced its financial results for 2QFY20 with earnings clocking in at PKR 25.87bn (EPS PKR 6.01) as compared to PKR 30.02bn (EPS PKR 6.98) in the same period last year, down by 14%YoY. This brings total profitability for 1HFY20 to PKR 53.18bn (EPS PKR 12.36) down by 6%YoY compared to PKR 56.76bn (EPS PKR 13.20) in the same period last year.
- ✓ The Company announced cash dividend of PKR 1.75/share along with the result taking total cash payout for 1HFY20 to PKR 4.25/share.
- ✓ We attribute this decline in earnings during 2QFY20 to a) drop in other income in the absence of exchange gains, b) increase in exploration cost amid higher prospecting expense and one dry well cost and, c) 6%/13%YoY drop in oil/gas production. However earnings decline was limited by +23%YoY rise in profit from Mari Petroleum Company Limited (MARI) and +16%YoY PKR depreciation.
- ✓ Net Revenues increased by +3%YoY to PKR 67.24bn during 2QFY20 compared to PKR 65.10bn in the similar period last year, likely on the back of +16%YoY PKR depreciation against greenback despite lower oil/gas production. Growth in revenues was also limited as OGDC did not record the 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 +6%YoY to PKR 15.67bn during 2QFY20 as against PKR 14.77bn in the same period last year likely on account of higher amortization expense.
- ✓ Exploration expense augmented by +2.6xYoY to PKR 6.46bn during 2QFY20 compared to PKR 2.52bn in the corresponding period last year likely owing to dry well cost booked against Soghri X-3 (Soghri Block). Exploration cost remained on the higher side also due to higher prospecting expense amid increased seismic activity, in our view. OGDC also declared 3 well which were temporarily suspended which in our view have not been recorded as dry during this quarter however we await financial accounts for further clarity in the regard.
- ✓ Other income receded by 34%YoY to PKR 5.08bn during 2QFY20 compared to PKR 7.75bn in the similar period last year likely in the absence of exchange gains.
- ✓ Finance cost surged by +80%YoY to PKR 0.76bn during 2QFY20 compared to PKR 0.42bn in the same period last year.
- ✓ Effective tax rate stood at 33.9% during 2QFY20 as against 33.8% in the same period last year (1QFY20: 31.2%) bringing total effective tax rate for 1HFY20 to 32.5% compared to 33.0% in the corresponding period last year.

Exhibit: OGDC Financial Highlights

PKRmn	2QFY20	2QFY19	YoY	1QFY20	QoQ	1HFY20	1HFY19	YoY
Net Sales	67,237	65,099	3%	66,204	2%	133,441	126,898	5%
Royalty	7,477	7,363	2%	7,739	-3%	15,216	14,240	7%
Operating Expenses	15,674	14,773	6%	14,886	5%	30,560	29,634	3%
Gross Profit	43,662	42,558	3%	43,191	1%	86,853	82,236	6%
Other Income	5,082	7,752	-34%	2,845	79%	7,927	11,851	-33%
Exploration and Prospecting	6,463	2,520	156%	3,962	63%	10,425	4,482	133%
Finance Cost	755	419	80%	745	1%	1,500	830	81%
WPP Fund	2,060	2,388	-14%	2,089	-1%	4,149	4,460	-7%
Share of profit from associate	1,457	1,183	23%	1,493	-2%	2,950	2,212	33%
PBT	39,148	45,376	-14%	39,688	-1%	78,836	84,739	-7%
PAT	25,868	30,021	-14%	27,316	-5%	53,184	56,756	-6%
EPS (PKR)	6.01	6.98		6.35		12.36	13.20	
DPS (PKR)	1.75	3.00		2.50		4.25	5.75	

Source: IGI Research and Company Financials No Shares: 4,300.9mn

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