

Company Update

Oil & Gas Development Company Limited (OGDC)

Target Price: PKR 156/share;

Upside: 75.5%

2022: Dividend yld: 10%, P/E: 2.9x

--

Market Price: PKR 88.9

52 weeks: 88.7 — 90.2

Return: (3M) -1.4%, (6M) 0.2%, (12M) -1.2%

Outstanding Shares: 4.3bn (FF%: 15)

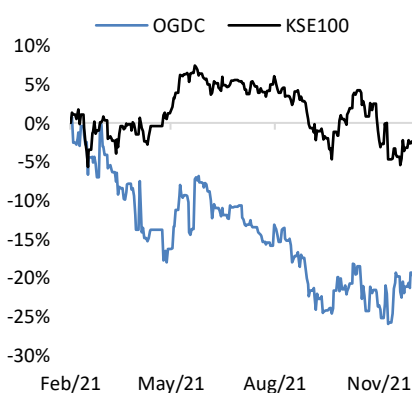
Market Capitalisation: PKR 381.4bn, US\$ 2.16bn

Exchange: KSE100, KSEALL, MSCI FM,

Key Financial Highlights

PKR/ Share	2021a	2022e	2023f
EPS	21.3	30.4	28.0
DPS	6.9	9.0	12.3
BVPS	178.9	200.4	216.5
ROE%	12%	15%	13%
P/E	4.2x	2.9x	3.2x
DY	7.8%	10.1%	13.8%
P/B	0.5x	0.4x	0.4x

Relative Price performance



Source: Company Accounts, PSX

Analyst

Saad Khan

Saad.khan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 810

Abdullah Farhan

Abdullah.Farhan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 912

Oil & Gas Exploration Companies

Earnings Revised Up; WACOG Implementation Key To Unlocking Valuation, 'Buy' Rating Maintained

- We have revised up our earnings estimate by 5% for FY22E to Eps PKR 30.4/share following the 2QFY22 result announcement and recent management briefing call of OGDC.
- This incorporates the exchange gains booked and loss from Pakistan International Oil Limited (PIOL) incurred during the 2QFY22 on account of seismic activity expense incurred at offshore block 5 in Abu Dhabi.
- We maintain a "Buy" rating on OGDC, with Dec-22 Target price of PKR 156/share, offering 84% upside from last close. The Company is currently trading at FY22/23F P/E of 2.9x/3.2x

FY22 Earnings revised up to incorporate exchange gains and loss from associate

We have revised up our earnings estimate by 5% for FY22E to Eps PKR 30.4/share following the 2QFY22 result announcement and recent management briefing call of Oil & Gas Development Company Limited (OGDC). We have incorporated, exchange gains booked and loss from Pakistan International Oil Limited (PIOL) incurred during the 2QFY22 on account of seismic activity expense incurred at offshore block 5 in Abu Dhabi.

'Buy' call intact

We maintain a "Buy" rating on OGDC, with Dec-22 Target price of PKR 156/share, offering 84% upside from last close. The Company is currently trading at FY22/23F P/E of 2.9x/3.2x

Cash flow improvement on WACOG implementation to provide further impetus to stock

Although cash position of the Company has been marred by substantial rise in receivables, however, settlement of receivables and improvement in recoveries from Sui companies, once WACOG is implemented, will strengthen cash position. Risk of foreign selling and divestment of shares has subsided for now. Development projects in pipeline are also expected arrest production decline concerns.

2qFy22 EPS up +87%y to PKR 8.2

To recall, the Company reported +87%y/y rise in profitability to PKR 35.25bn (EPS PKR 8.2) compared to PKR 18.88bn (EPS PKR 4.39) in the same period last year taking total earnings for 1HFY22 to PKR 68.88bn (EPS PKR 16.02), up by +63%y/y, compared to PKR 42.23bn (EPS PKR 9.82) in the corresponding period last year.

OGDC announced cash dividend of PKR 2.0/share along with the result taking total cash payout for 1HFY22 to PKR 3.75/share. Despite substantial rise in

profitability during 1HFY22, payout has remained relatively unchanged which in our view is likely due to pile up in receivables from Sui companies.

Earnings growth was limited by loss from associate to the tune of PKR 0.88bn during 2QFY22 compared to profit of PKR 1.48bn in the same period last year.

Exhibit: Financial Highlights Oil & Gas Development Company Limited (OGDC)								
Latest result published for 2QFY22								
Period (PKRmn)	2QFY22	2QFY21	y/y	1QFY22	q/q	1HFY22	1HFY21	y/y
Net Sales	79,633	54,632	46%	71,531	11%	151,163	110,980	36%
Royalty	8,792	6,176	42%	8,242	7%	17,034	12,903	32%
Operating Expenses	17,794	16,413	8%	16,575	7%	34,369	33,302	3%
Gross Profit	52,391	31,437	67%	46,310	13%	98,701	63,940	54%
Other Income	10,359	640	16.20	10,878	-5%	21,237	6,597	3.22
Exploration and Prospecting	4,610	2,266	103%	2,283	102%	6,893	5,222	32%
Finance Cost	578	582	-1%	563	3%	1,141	1,146	0%
WPP Fund	2,784	1,483	88%	2,751	1%	5,535	3,267	69%
Share of profit / (loss) from associate	-883	1,467	n/m	1,820	n/m	936	3,280	-71%
PBT	52,902	28,174	88%	52,270	1%	105,172	62,069	69%
PAT	35,253	18,882	87%	33,629	5%	68,883	42,225	63%
EPS	8.20	4.39		7.82		16.02	9.82	
DPS	2.00	1.60		1.75		3.75	3.60	

Source: Company accounts, IGI Research, PSX No. of shares: 4,300.93mn

Key highlights from management conference call

OGDC held conference call to discuss 2QFY22 financial results. Management also provided further details on key developments.

Loss from associate

OGDC has booked cost of seismic survey in Block 5 in Abu Dhabi through its associate Pakistan International Oil Limited (PIOL) to the tune of PKR 2.5bn during 2QFY22. Seismic surveys are likely to take 2-3 years post which the Company will decide how many wells to drill in the block. Further investment in the block will be done once drilling commences. As a result, OGDC booked a net loss of PKR 0.88bn from its associates which includes shares of profit from Mari Petroleum Company Limited (MARI).

Weighted Average Cost of Gas (WACOG)

The Company informed regarding circular debt that different options are in discussion with the Government. Recent approval of WACOG Bill is a key development and will likely improve cash flows for OGDC once implemented. However, as it will be in a phased manner, timeline of implementation is not certain. Nevertheless, once effective the Company expects impact to be visible in 6 months. To recall, OGDC has witnessed a ~PKR 48bn increase in its receivables in the last 6 months which stood at PKR 304bn as at Jun-21.

Wali Block

Commencement of production from Wali well would take 2-3 years however, if negotiations with SNGPL regarding the 60km line are successful then production could come online in a years' time. Furthermore, as Co2 level in gas from Wali field is higher (4.2%) against standard 3%, Company would have to invest further to reduce Co2 level. The Company will drill 2 wells in the next 2-3 months to assess the reserves size of the well. So far, 3 formations have yielded 2,850bopd of oil and 37mmcfcd of gas during initial testing.

Development projects

Installation of 1st compressor under Qadirpur Compression Project has been completed while 2nd and 3rd compressors are expected to be completed by Mar-22 which would add further 17mmcfcd of gas. Dakhni project is expected to be completed by Jun-23 which would add 7mmcfcd of gas while KPD-TAY compression project would add 66mmcfcd of gas by Sep-23. Uch compression project would add 40mmcfcd of incremental gas by Dec-23.

Exhibit: Key timelines of development projects

Sr. no	Project	Completion Date	Incremental Daily Production
1	Qadirpur	Feb-22	Gas: 17mmcfcd
2	Maru-Reti	Aug-22	Gas: 01mmcfcd
3	Daru-Mangrio	Nov-22	LPG: 27mtpd Condensate: 170bopd
4	Dakhni	Jun-23	Gas: 7mmcfcd LPG: 1.8mtpd Sulphur: 10mmcfcd Condensate: 483bopd
5	KPD-TAY	Sep-23	Gas: 66mmcfcd LPG: 66mtpd
6	Uch	Dec-23	Gas: 40mmcfcd

Source: OGDC

Production & drilling

The Company's oil and gas production stood at 36,788bopd and 827mmcfcd during 1HFY22 compared to 36,423bopd and 856mmcfcd respectively in the same period last year. Turnaround at Qadirpur, Nashpa, Sinjhor, Mela and Uch led to overall decline in gas production.

OGDC spudded 6 wells comprising 4 exploratory/appraisal well and 2 developments. The Company encountered 4 discoveries during the period from Wali-1 (Kawagarh, Hangu and Lockhart formations) and Jandran West-1.

Oil and gas realized prices stood at USD 63.23/bbl and PKR 404.28/mcf respectively during 1HFY22 against USD 38.81/bbl and PKR 377.93/mcf in the same period last year.

Recommendation: Buy

We maintain a “Buy” rating on OGDC, with Dec-22 Target price of PKR 156/share, offering 76% upside from last close. Stock of OGDC has come under immense pressure due to foreign selling and non-resolution of circular debt. With former behind us OGDC is currently trading at FY22/23 P/E of 2.9/3.2x and offers a dividend yield of 10%.

Target Price: PKR 156/share; Upside: 75.5%

2022: Dividend yld: 10%, P/E: 2.9x

Key risks & catalyst:

- Secondary Public Offering by GoP,
- No resolution in circular debt leading to pile up of receivables restricting growth potential and cash payouts,
- Further depletion in aging wells,
- No success in Offshore block 5 in Abu Dhabi.

About:

- The Company was established to undertake exploration and development of oil and gas resources, including production and sale of oil and gas and related activities.
- Government of Pakistan holds nearly 85% shareholding in OGDC.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/ securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to Subject Company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation Rating System

Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2022 IGI Finex Securities Limited

Contact Details

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk
Ajay Kumar	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	ajay.kumar@igi.com.pk
Huzaifa Yaseen	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	huzaifa.yaseen@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |

Corporate member of Pakistan Mercantile Exchange Limited

Website: www.igisecurities.com.pk

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
 Fax: (+92-21) 35309169, 35301780

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
 Stock Exchange Road, Karachi.
 Tel: (+92-21) 32429613-4, 32462651-2
 Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
 Packages Mall
 Tel: (+92-42) 38303560-69
 Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
 Building, 2- Liaqat Road
 Tel: (+92-41) 2540843-45
 Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
 Abdali Road
 Tel: (92-61) 4512003, 4571183

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
 Block- B, Jinnah Avenue, Blue Area
 Tel: (+92-51) 2604861-2, 2604864, 2273439
 Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
 Model Town, Town Hall Road
 Tel: (+92-68) 5871652-3
 Fax: (+92-68) 5871651

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2022 IGI Finex Securities Limited