

# Day Break

Wednesday, 09 March 2016

## Company Update

### Oil & Gas Dev.Co

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	166.6
Last Closing	117.2
Upside	42%

### Market Data

Bloomberg Tkr.	OGDC PA
Shares (mn)	4,300.9
Market Cap (PKRbn   USDmn)	504.1   4,815.9
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(2.9)	(16.5)	(43.7)
Low	95.6	95.6	95.6
High	118.0	143.2	201.1

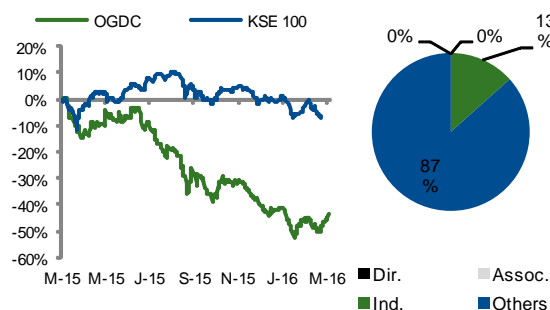
### Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	210.6	163.1	176.6	190.5
Net Income	87.2	62.8	66.6	71.9
EPS (PKR)	20.3	14.6	15.5	16.7
DPS (PKR)	7.8	5.5	6.0	6.5
Total Assets	553.8	571.2	619.2	666.5
Total Equity	442.5	482.4	524.9	570.7

### Key Financial Ratios

ROE (%)	20%	13%	13%	13%
P/E (x)	5.8	8.0	7.6	7.0
P/B (x)	1.1	1.0	1.0	0.9
DY (%)	6.6	4.7	5.1	5.5

### Relative Price Performance & Shareholding



### 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, KSE 100 & IGI Research

Analyst

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## Oil & Gas Exploration

### OGDC: Weak Oil Price and Production Taking Toll on Earnings in 2QFY16

- Oil & Gas Development Company (OGDC) announced 2QFY16 result posting a drop of 18%YoY in earnings to PKR 15.9bn (EPS PKR 3.71) compared to PKR 19.5bn (EPS PKR 4.54) in same period last year.
- Oil revenues witnessed a drop of 40%YoY in 2QFY16 to PKR 15bn owing to 46%YoY decline in Arab Light prices and a paltry fall of 3% in oil production. Similarly, gas revenue posted a decline of 10%YoY to PKR 32bn in 2QFY16 owing to 5%YoY dip in production, primarily from Tal Block.
- Among IGI E&P universe, OGDC remains our top pick with a strong "BUY" call as our Dec-16 TP of PKR 166/share, offers +42% upside from its last close. The company is currently trading at a FY16E P/E of 8.0x, with a dividend yield of 4.7%.

### Earnings Decline by 18%YoY to PKR 3.71/share in 2QFY16

Oil & Gas Development Company (OGDC) announced 2QFY16 result posting a drop of 18%YoY in earnings to PKR 15.9bn (EPS PKR 3.71) compared to PKR 19.5bn (EPS PKR 4.54) in same period last year. Cumulative earnings for 1HFY16 stand at PKR 34.2bn (EPS PKR 7.95), depicting a decline of 28%YoY. Company also announced a cash dividend of PKR 1.20/share in 2QFY16 along with the result.

### Exhibit: OGDC Production

	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Oil (bopd)	40,028	41,271	-3%	79,182	82,139	-4%
Gas (mmcf/d)	1,116	1,173	-5%	2,246	2,389	-6%
LPG (tons/day)	312	259	20%	579	493	18%

Source: IGI Research, Company Financials

### Oil and Gas Revenues Plunge As Prices and Production take a hit

Oil revenues witnessed a drop of 40%YoY in 2QFY16 to PKR 15bn owing to 46%YoY decline in Arab Light prices and a paltry fall of 3% in oil production. Tal block, Adhi and Nashpa contributed 53% in total oil production during the quarter (52% in 1HFY16). Realized price for 1HFY16 is USD 43.1/bbl, as disclosed by management.

Wednesday, 09 March 2016

Similarly, gas revenue posted a decline of 10%YoY to PKR 32bn in 2QFY16 owing to 5%YoY dip in production, primarily from Tal Block. Qadirpur and Uch, according to our estimates, contributed 54% to total gas production in 2QFY16 (55% in 1HFY16). Realized gas price stood at PKR 255.5 in 1HFY16. LPG revenues on the other hand, witnessed a jump of +6%YoY in 2QFY16 to PKR 1.8bn, on the back of commencement of production from Sinjhero and Jakhro fields.

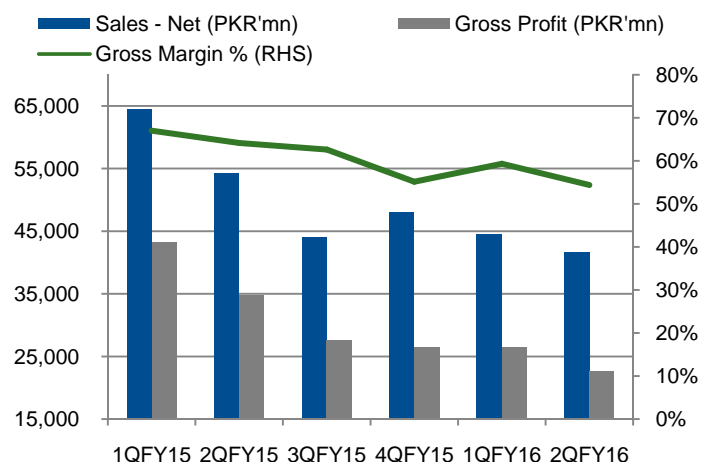
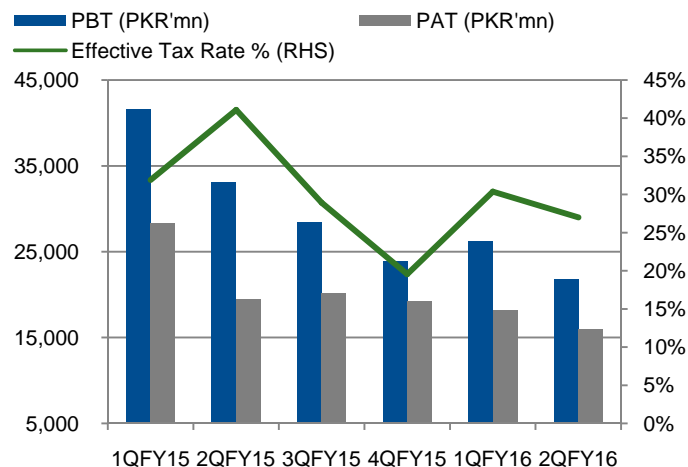
**Exhibit: OGDC Revenues**

PKR mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Oil	15,403	25,685	-40%	32,107	57,677	-44%
Gas	31,507	34,820	-10%	65,199	71,762	-9%
LPG	1,835	1,734	6%	3,160	3,451	-8%
Total	48,758	62,328	-22%	100,795	133,261	-24%

Source: IGI Research and Company Financials

**Exhibit: OGDC Realized Price**

	1HFY16	1HFY15	YoY
Oil (USD/bbl)	43.09	76.57	-44%
Gas (PKR/mmcf)	255.47	276.69	-8%

**Exhibit: Gross Profit in relation with Sales****Exhibit: PBT, PAT and Effective Tax Rate**

Source: IGI Research, Company's Financials

### OGDC Signs Supplemental Agreement with GoP for Conversion to PP-12

OGDC in its 1HFY16 financial statements notified that the company has signed a supplemental agreement with GoP, for conversion of concessions to Petroleum Policy 2012. This conversion would be applicable on blocks according to timeline of their discoveries and respective Petroleum Policies of 2007, 2009 and 2012. Future discoveries along with blocks discovered after 2012 will be covered in Petroleum Policy 2012. The documentation of the conversion to PP-12 is expected to be finalized within next six months, whereas gas price notification and payments would be issued in 12 months time period after the finalization of documentations.

According to the notices issued by the company to Pakistan Stock Exchange (PSX), the GoP has already granted conversion of few concessions to Petroleum Policy 2012 among which major concessions include Tal Block, Gurgalot, Sinjhero, Thal and Nim.

Wednesday, 09 March 2016

### Additional Oil & Gas Production from Mardankhel and KPD-TAY Project from 4QFY16

According to management, production from Mardankhel in Tal block is likely to come online from 4QFY16, which is anticipated to contribute additional 2% and 1% to oil and gas production, respectively in FY17. Furthermore, management expects Kunnar Pasakhi Deep-Tando Allah Yar project to be completed by the end of Mar-16, which is expected to contribute additional production of 4,000 bbls of oil, 125mmcf of gas and 410 tons of LPG. Our oil price assumption is USD 35/40/bbl for FY16/FY17 with long term price of USD 50/bbl.

#### Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Dec16
	FY16	FY17	FY18	FY16	FY17	FY18	
Bear	30.0	35.0	45.0	13.7	14.7	16.0	160.9
Base	35.0	40.0	50.0	14.6	15.5	16.7	166.6
Bull	40.0	45.0	55.0	15.2	16.3	17.5	171.9

Source: IGI Research

### Recommendation

Among IGI E&P universe, OGDC remains our top pick with a strong **“BUY”** call as our Dec-16 TP of PKR 166/share, offers +42% upside from its last close. The company is currently trading at a FY16E P/E of 8.0x, with a dividend yield of 4.7%.

#### Exhibit: Financial Highlights

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Net Sales	41,673	54,248	-23%	86,186	118,644	-27%
Royalty	4,680	6,105	-23%	9,694	13,521	-28%
Operating Expenses	13,934	12,920	8%	26,568	26,133	2%
Gross Profit	22,659	34,804	-35%	49,055	77,956	-37%
Other Income	4,305	3,941	9%	8,295	10,222	-19%
Exploration and Prospecting	2,906	2,521	15%	4,713	6,273	-25%
Finance Cost	408	631	-35%	833	1,242	-33%
WPP Fund	1,150	1,744	-34%	2,530	3,932	-36%
PBT	21,848	33,130	-34%	48,076	74,710	-36%
PAT	15,946	19,518	-18%	34,206	47,828	-28%
EPS (PKR)	3.71	4.54	-18%	7.95	11.12	-28%
DPS (PKR)	1.20	2.00		2.70	4.50	

Source: IGI Research and Company Financials

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- Asset Based Valuation

#### Time Horizon

- Dec-16

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in USD/PKR
- Change in Oil price

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