

Day Break

Tuesday, 25 February 2020

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price: Dec/20	191.1
Last Closing: 24-Feb-20	127.2
Upside:	50.3
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	10M

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)	546.9	3,543.8	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(3.7)	15.7	(13.7)
Lo	125.9	104.6	104.6
Hi	154.2	154.2	154.2

Key Company Financials

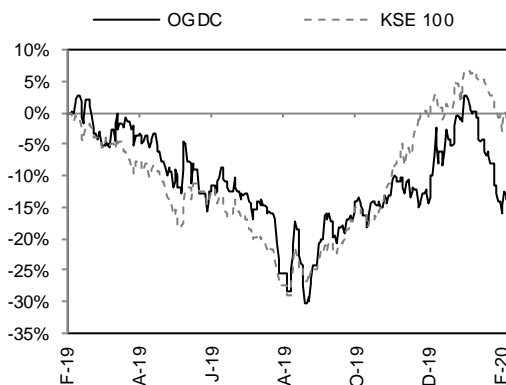
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	261.5	274.3	275.1	261.9
Net Income	118.4	119.2	116.6	108.3
EPS (PKR)	27.5	27.7	27.1	25.2
DPS (PKR)	11.0	11.0	10.5	10.0
Total Assets	766.6	792.5	861.6	923.3
Total Equity	625.4	695.3	766.5	832.8

Key Financial Ratios

ROE (%)	14.8	20.1	18.1	15.9
P/E (x)	4.6	4.6	4.7	5.1
P/B (x)	1.0	0.9	0.8	0.7
DY (%)	8.7	8.7	8.3	7.9

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

Abdullah Farhan

Analyst

Abdullah.farhan@igi.com.pk

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

Oil & Gas Exploration Companies

OGDC: One-off income to limit earnings decline amid higher exploration cost and absence of exchange gains; EPS PKR 6.86, DPS PKR 2.75 for 2QFY20

- ✓ Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 29.51bn (EPS PKR 6.86), down by 2% YoY,
- ✓ We estimate decline in earnings on the back a) 48% YoY drop in other income in the absence of exchange gains, b) 2.6x YoY increase in exploration cost amid higher prospecting expense and one dry well cost and, c) and 6%/13% YoY drop in oil/gas production. However earnings decline is likely to be limited by a) +16% YoY PKR depreciation against greenback and, b) one-off income of retrospective impact of revision in Uch field,
- ✓ On a quarterly basis, earnings are expected to increase by +8% QoQ on the back of +10% QoQ rise in revenues likely owing to PKR 5.88bn one-off income regarding retrospective impact of Uch field,
- ✓ We recommend a 'BUY' stance on OGDC with our Dec-20 target price of PKR 191.1/share offering 50% upside from last close.

Earnings to clock in at PKR 6.86/share for 2QFY20, down by 2%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 29.51bn (EPS PKR 6.86), down by 2% YoY, compared to PKR 30.02bn (EPS PKR 6.98) in the same period last year. We estimate decline in earnings on the back a) 48% YoY drop in other income in the absence of exchange gains, b) 2.6x YoY increase in exploration cost amid higher prospecting expense and one dry well cost and, c) and 6%/13% YoY drop in oil/gas production. However earnings decline is likely to be limited by a) +16% YoY PKR depreciation against greenback and, b) one-off income of retrospective impact of revision in Uch field gas price notified by OGRA. This brings total profitability for 1HFY20 to PKR 56.83bn (EPS PKR 13.21).

We expect cash dividend payout of PKR 2.75/share for the 2QFY20 bringing total cash payout for 1HFY20 to PKR 5.25/share.

Exhibit: Financial Highlights

PKRmn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Net Sales	72,641	65,099	12%	138,845	126,898	9%
Royalty	8,150	7,363	11%	15,888	14,240	12%
Operating Expenses	15,533	14,773	5%	30,419	29,634	3%
Gross Profit	48,506	42,558	14%	91,697	82,236	12%
Other Income	4,008	7,752	-48%	6,852	11,851	-42%
Exploration and Prospecting	6,466	2,520	157%	10,428	4,482	133%
Finance Cost	688	419	64%	1,433	830	73%
WPP Fund	2,270	2,388	-5%	4,359	4,460	-2%
PBT	43,399	45,376	-4%	83,088	84,739	-2%
PAT	29,512	30,021	-2%	56,828	56,756	0%
EPS (PKR)	6.86	6.98		13.21	13.20	
DPS (PKR)	2.75	3.00		5.25	5.75	

Source: IGI Research and Company Financials

No Shares: 4,300,9mn

One-off income relating to Uch field price notification to lift earnings on sequential basis

On a quarterly basis, earnings are expected to increase by +8% QoQ on the back of +10% QoQ rise in revenues likely owing to PKR 5.88bn one-off income regarding retrospective impact of Uch field post notification by OGRA which is expected to be booked during this quarter.

Oil and Gas production down by 6%/13% YoY during 2QFY20

Total gas production for the Company fell down by 13% YoY on the back of nearly lower production from Uch and Qadirpur. This brings total gas production for 1HFY20 to 888mmcf down by 10% YoY. Oil production also fell by 6% YoY on account of lower production from Nashpa, Adhi and Tal block. This brings total oil production to 38,001bopd down by 7% YoY for 1HFY20.

Exhibit: OGDC oil production (bopd)

Oil production remained low due to lower production from Nashpa and Adhi

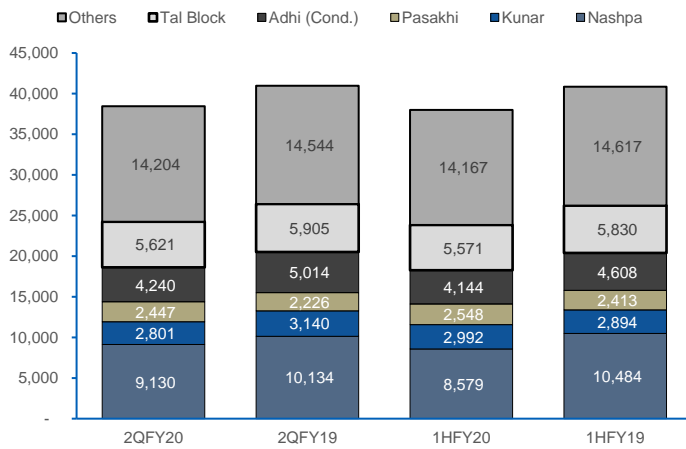
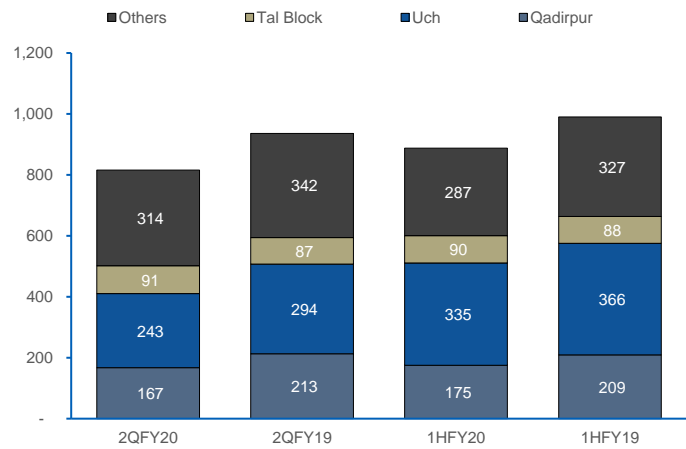


Exhibit: OGDC gas production (mmcf)

Gas production remained low due to lower production from Uch and Qadirpur



Recommendation

We recommend a ‘BUY’ stance on OGDC with our Dec-20 target price of PKR 191.1/share offering 50% upside from last close. The company is currently trading at FY20 P/E of 4.6x.

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Time Horizon: Dec – 2019

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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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

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
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

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
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@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

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
Website: www.igisecurities.com.pk

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

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>