

Day Break

Thursday, 16 February 2017

COMPANY UPDATE

OIL & GAS DEVELOPMENT COMPANY LIMITED OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price	196.2
Last Closing 15-Feb-17	156.0
Upside	25.7

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)	671.1 6,405.1
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	10.9 10.0 52.5
Low	140.0 137.5 99.7
High	170.7 170.7 170.7

Key Company Financials

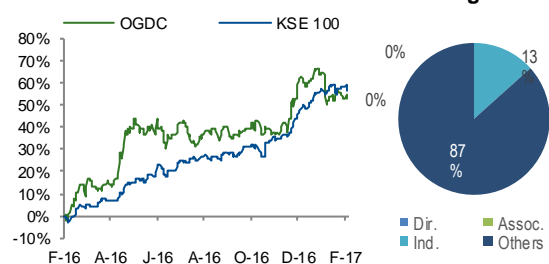
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	162.9	209.0	238.7	227.8
Net Income	59.97	79.5	89.9	83.3
EPS (PKR)	13.9	18.5	20.9	19.4
DPS (PKR)	5.2	7.0	8.0	7.5
Total Assets	589.6	651.5	711.6	766.5
Total Equity	478.6	528.9	585.7	638.3

Key Financial Ratios

ROE (%)	12.5	15.0	15.3	13.0
P/E (x)	11.2	8.4	7.5	8.1
P/B (x)	1.4	1.3	1.1	1.1
DY (%)	3.3	4.5	5.1	4.8

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

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Oil & Gas – Exploration Companies

OGDC: Earning to Clock in at PKR 3.74/share for 2QFY17

- Oil and Gas Development Company Limited's (OGDC) board meeting is scheduled on 17th Feb-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 16.1bn (EPS PKR 3.74) up by +1%YoY in 2QFY17
- We attribute flattish growth in earnings to a) +10%YoY increase in revenues on the back of +19%YoY rise in oil prices, b) +9%YoY higher oil production, and c) commencement of production from Mardankhel. However, earnings are expected to dilute as a result of a) 12%YoY lower other income, and b) 30%YoY higher exploration cost owing to dry well cost incurred at Daru Deep-1.
- We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +26% upside from its last closing. The company is currently trading at a FY17E P/E of 8.4x and offers a dividend yield of 4.5%.

Earnings to clock in at PKR 3.74/share in 2QFY17, edging up by +1%YoY

Oil and Gas Development Company Limited's (OGDC) board meeting is scheduled on 17th Feb-17 to announce financial result for 2QFY17. We expect the company to report earnings of PKR 16.1bn (EPS PKR 3.74) up by +1%YoY in 2QFY17 as compared to PKR 15.9bn (EPS PKR 3.71) in the same period last year. We attribute flattish growth in earnings to a) +10%YoY increase in revenues on the back of +19%YoY rise in oil prices, b) +9%YoY higher oil production, and c) commencement of production from Mardankhel in Nov-16. However, earnings are expected to dilute as a result of a) 12%YoY lower other income, and b) 30%YoY higher exploration cost owing to dry well cost incurred at Daru Deep-1. Cumulative earnings for 1HFY17 is anticipated to clock in at 30.7bn (EPS PKR 7.15), down by 48%YoY as compared to PKR 34.2bn (EPS PKR 7.95) in the corresponding period last year. The company is expected to announce cash dividend of PKR 1.25/share taking cumulative dividend for 1HFY17 to PKR 2.75/share.

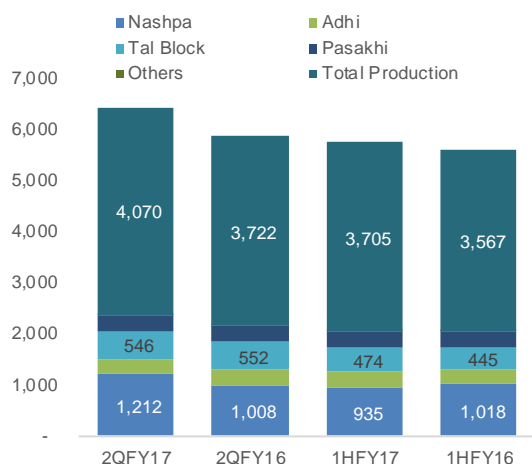
Commencement of Production from Mardankhel, Tal Block

Mardankhel, one of the biggest discovery since 2015 in Tal block came online in Nov-16 with initial production level of 3,200bopd of oil and 40mmcf of gas. As Tal block has been granted conversion to Petroleum Policy 2012 (PP12), gas production from Mardankhel will be priced under PP12 which is +71% higher than price under PP01. Production from Mardankhel is expected to contribute PKR 0.04/share in earnings for 2QFY17.

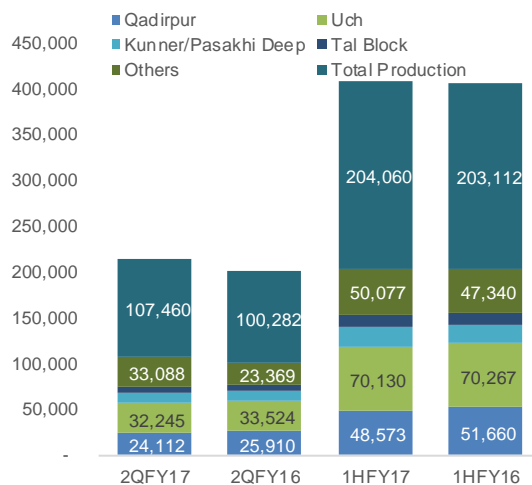
Oil and gas production up by +9%YoY/+7%YoY in 2QFY17

Oil production is expected to increase by +9%YoY to 44,235bopd in 2QFY17 on the back of production commencement from Mardankhel (3,200bopd) and increased production from Nashpa field. Gas production is estimated to increase by +7%YoY to 1,168mmcf owing to +6%YoY higher production from Kunner/Pasakhi Deep.

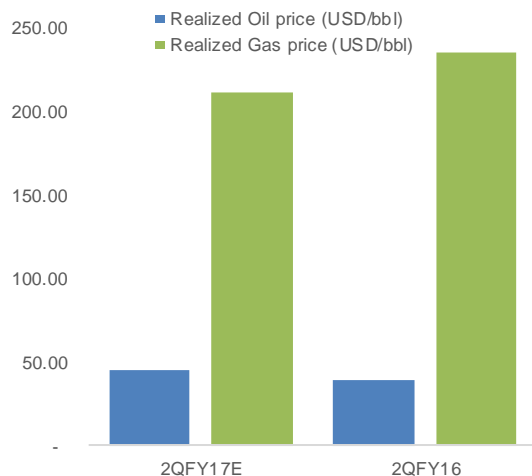
Total Oil Production in 2QFY17 (000'bbls)



Total Gas Production in 2QFY17 (mm cf)



Realized oil and gas price



Source: Company Financials, PPIS & IGI Research

Recommendation

We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +26% upside from its last closing. The company is currently trading at a FY17E P/E of 8.4x and offers a dividend yield of 4.5%.

Exhibit:

Financial Highlights

PKRmn	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
Net Sales	45,657	41,673	10%	85,223	86,186	-46%
Royalty	5,068	4,680	8%	9,375	9,694	-46%
Operating Expenses	14,716	13,934	6%	27,795	26,568	-47%
Gross Profit	25,337	22,659	12%	47,107	49,055	-46%
Other Income	3,799	4,305	12%	8,860	8,295	-57%
Exploration & Prospecting	3,773	2,906	30%	8,094	4,713	-53%
Finance Cost	452	408	11%	855	833	-47%
WPP Fund	1,431	1,150	24%	2,528	2,530	-43%
PBT	22,926	21,848	5%	43,760	48,076	-48%
PAT	16,100	15,946	1%	30,732	34,206	-48%
EPS (PKR)	3.74	3.71		7.15	7.95	
DPS (PKR)	1.25	1.20		2.75	2.70	

Source: IGI Research and Company Financials

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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)

Time Horizon: Dec - 2017

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, 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. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **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.

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