

Day Break

Wednesday, 13 September 2017

COMPANY UPDATE

OIL & GAS DEVELOPMENT COMPANY LIMITED OIL & GAS EXPLORATION COMPANIES

Recommendation	BUY
Target Price:	195.8
Last Closing: 12-Sep-17	146.9
Upside:	33.3
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Dec-17

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)	631.6 5,993.7
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(8.9)	(4.0)	2.8
Lo	133.7	133.7	133.7
Hi	160.0	188.7	188.7

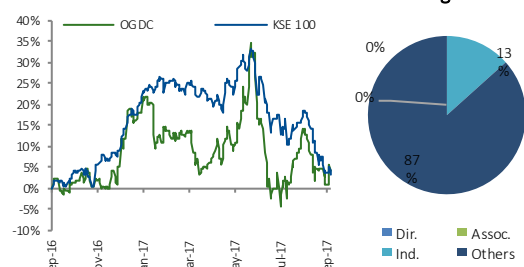
Key Company Financials

Period End: Jun				
PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	162.9	171.4	231.5	221.1
Net Income	59.97	64.4	88.5	82.1
EPS (PKR)	13.9	15.0	20.6	19.1
DPS (PKR)	5.2	6.0	7.0	6.5
Total Assets	589.6	646.5	709.6	764.9
Total Equity	478.6	527.5	586.1	640.4

Key Financial Ratios

ROE (%)	12.5	12.2	15.1	12.8
P/E (x)	10.5	9.8	7.1	7.7
P/B (x)	1.3	1.2	1.1	1.0
DY (%)	3.5	4.1	4.8	4.4

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, PSX & IGI Research

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Oil & Gas – Exploration Companies

OGDC: FY17 Earnings to clock in at PKR 14.98/share led by higher oil price and improved production

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 15th Sep-17 to announce financial result for 4QFY17. We expect the company to report earnings of PKR 16.9bn (EPS PKR 3.92) up by +2%YoY in 4QFY17 as compared to PKR 16.5bn (EPS PKR 3.83). We attribute this earnings growth to a) +16%YoY increase in oil prices and, b) +3%/+1%YoY higher oil/gas production. However, earnings are expected to dilute on the back of +7%YoY increase in exploration cost
- Earnings for FY17 is estimated to clock in at 64.45bn (EPS PKR 14.98) up by +7%YoY as compared to PKR 59.97bn (EPS PKR 13.94) in the corresponding period last year
- We attribute this rise in earnings to a) +19%YoY increase in oil price, b) steady exploration cost and, c) +5%/4%YoY rise in oil/gas production.
- We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +33% upside from its last closing. The company is currently trading at a FY18F P/E of 7.1x and offers a dividend yield of 4.8%.

Earnings to clock in at PKR 3.92/share in 4QFY17, up by +2%YoY...

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On quarterly basis earnings are expected to decline by 4%YoY likely owing to a) dry well cost incurred at Thal West 2, Kadanwari Dir-40 and Palli-3, b) 7%QoQ decline in oil prices and, c) 10%/2%QoQ decline in oil/gas production owing to lower demand during this quarter.

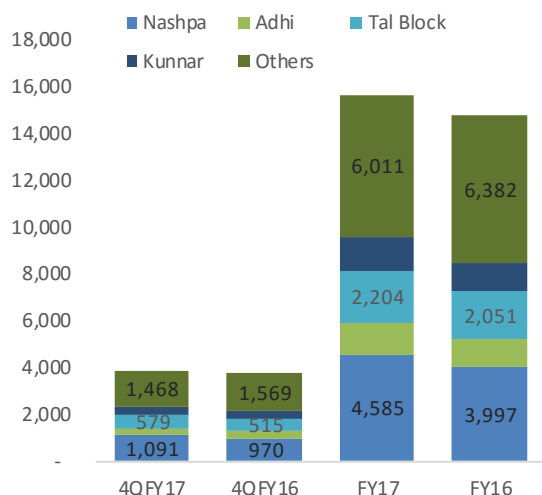
... Taking FY17 earnings to PKR 14.98/share, up by +7%YoY

Earnings for FY17 is estimated to clock in at 64.45bn (EPS PKR 14.98) up by +7%YoY as compared to PKR 59.97bn (EPS PKR 13.94) in the corresponding period last year. We attribute this rise in earnings to a) +19%YoY increase in oil price, b) steady exploration cost and, c) +5%/4%YoY rise in oil/gas production.

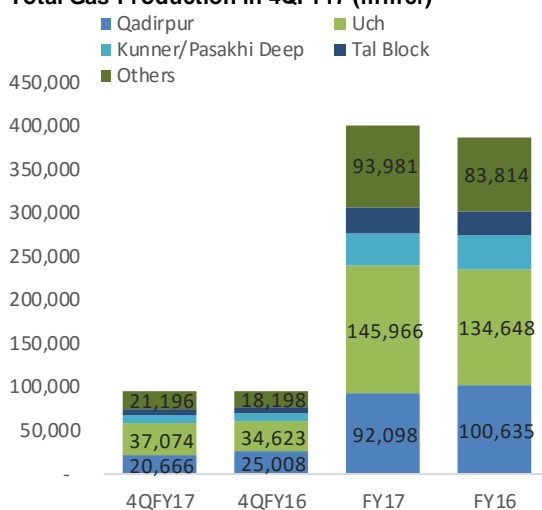
Oil and gas production up by +5%YoY and +4%YoY, respectively in FY17

Oil production increased by +5%YoY to 42,838bopd in FY17 on the back of production commencement from Mardankhel and production commencement from Dars, Dars West and Deep, Pasakhi East and Deep West, Shah, Thora, Thora Deep and Unar (cumulative contributing nearly 1% or 787bopd to total oil production). Furthermore production from Nashpa increased by +15%YoY owing to production enhancement from development projects.

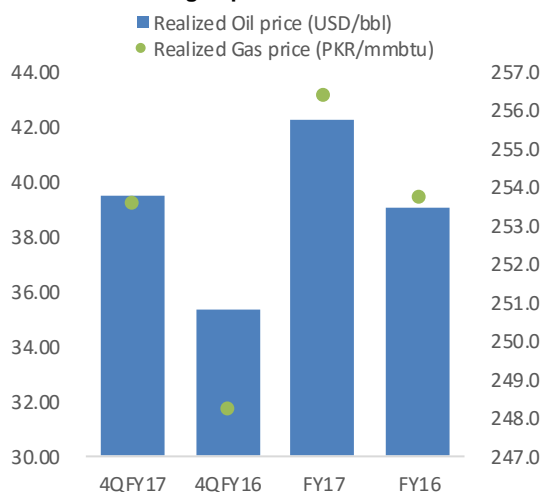
Total Oil Production in 4QFY17 (000'bbls)



Total Gas Production in 4QFY17 (mmcf)



Realized oil and gas price



Source: Company Financials, PPIS & IGI Research

Gas production increased by +4%YoY to 1,098mmcf owing to a) increase in production from Uch (up by +8%YoY), b) +3%/+5%YoY increase in production from Kunnar Pasakhi Deep/Tal block and, c) additional cumulative production of 37.7mmcf coming online from Dars, Dars West and Deep, Pasakhi East and Deep West, Shah, Thora/Thora Deep and Unar. However, production from Qadirpur dropped by 8%YoY in FY17 owing to natural depletion.

Exhibit:

Financial Highlights

PKRmn	4QFY17E	4QFY16	YoY	QoQ	FY17E	FY16	YoY
Net Sales	44,750	40,155	11%	-2%	171,380	162,867	5%
Royalty	4,923	4,494	10%	0%	18,684	18,079	3%
Operating Expenses	14,455	15,002	-4%	-2%	57,623	54,986	5%
Gross Profit	24,960	20,220	23%	-1%	93,359	87,890	6%
Other Income	3,137	3,063	2%	-4%	15,707	14,703	7%
Exploration cost	4,109	3,839	7%	88%	14,490	14,548	0%
Finance Cost	571	465	23%	36%	1,807	1,718	5%
WPP Fund	1,172	978	20%	-7%	4,568	4,237	8%
PBT	21,608	18,583	16%	-10%	86,128	80,507	7%
PAT	16,854	16,471	2%	-4%	64,449	59,971	7%
EPS (PKR)	3.92	3.83			14.98	13.94	
DPS (PKR)	2.00	2.00			6.00	5.20	

Source: IGI Research and Company Financials

No Shares: 4,300.9

Recommendation

We maintain our "BUY" call on OGDC with our Dec-17 target price of PKR 196/share, offering +33% upside from its last closing. The company is currently trading at a FY18F P/E of 7.1x and offers a dividend yield of 4.8%.

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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)
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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)

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