

# Day Break

Friday, 25 September 2020

## COMPANY UPDATE

### Oil & Gas Development Company Limited

Oil &amp; Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price: Jun-21	172.5
Last Closing: 24-Sep-20	104.8
Upside (%):	64.6
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	9M

#### 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)	450.7   2,702
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	(1.6) 19.0 (9.3)
Lo	108.9 75.0 75.0
Hi	118.2 118.2 154.2

#### Key Company Financials

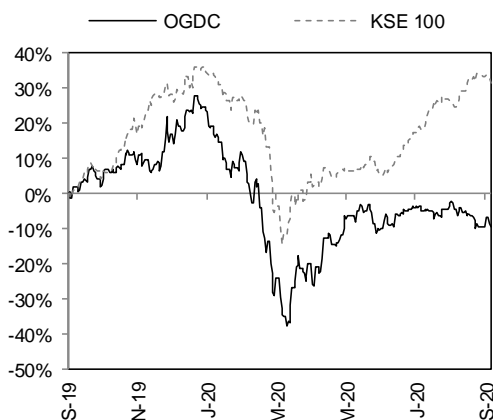
Period End: Jun

PKRbn	2020a	2021f	2022f	2023f
Total Revenue	244.9	241.6	248.1	255.2
Net Income	101.9	98.1	99.6	102.0
EPS (PKR)	23.7	22.8	23.2	23.7
DPS (PKR)	5.8	7.0	7.3	8.5
Total Assets	792.7	857.5	923.6	990.3
Total Equity	697.5	765.4	834.5	905.3

#### Key Financial Ratios

ROE (%)	14.8	20.1	15.4	13.4
P/E (x)	4.4	4.6	4.5	4.4
P/B (x)	0.8	0.7	0.6	0.6
DY (%)	5.5	6.7	6.9	8.1

#### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

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## Oil & Gas Exploration Companies

### OGDC: Lower oil prices, production and other income to drag 4QFY20 EPS to PKR 4.24 down by 45%YoY

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 28<sup>th</sup> Sep-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 18.22bn (EPS PKR 4.24), down by 45% YoY.
- We estimate decline in earnings on the back a) 61% YoY on average drop in oil price despite 11% YoY PKR depreciation, b) lower other income in the absence hefty exchange gains despite lower exploration cost and, c) lower oil and gas production amid Covid-19 lockdowns. This brings total profitability for FY20E to PKR 101.87bn (EPS PKR 23.69), down by 14% YoY, compared to PKR 118.39bn (EPS PKR 27.53) in the same period last year
- We recommend a 'BUY' stance on OGDC with our Jun-21 target price of PKR 172.5/share offering 65% upside from last close. The company is currently trading at FY21 P/E of 4.6x.

#### Earnings to clock in at PKR 4.24/share for 4QFY20, down by 45%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 28<sup>th</sup> Sep-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 18.22bn (EPS PKR 4.24), down by 45% YoY, compared to PKR 33.07bn (EPS PKR 7.69) in the same period last year. We estimate decline in earnings on the back a) 61% YoY on average drop in oil price despite 11% YoY PKR depreciation, b) lower other income in the absence hefty exchange gains despite lower exploration cost and, c) lower oil and gas production amid Covid-19 lockdowns. We have assumed OGDC to book dry well cost relating to Dhok Hussain North during the quarter.

This brings total profitability for FY20E to PKR 101.87bn (EPS PKR 23.69), down by 14% YoY, compared to PKR 118.39bn (EPS PKR 27.53) in the same period last year. We expect OGDC to announce cash payout of PKR 1.50/share bringing total cash payout for FY20 to PKR 5.75/share. Lower cash payout is based on substantial rise in receivables leading to cash constraints for the Company which stood a PKR 315bn as at Mar-20.

#### Exhibit: OGDC Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Net Sales	46,484	69,434	-33%	244,897	261,481	-6%
Royalty	5,215	7,840	-33%	27,575	29,336	-6%
Operating Expenses	14,134	18,419	-23%	60,517	63,456	-5%
Gross Profit	26,845	42,748	-37%	155,200	167,062	-7%
Other Income	4,918	14,435	-66%	21,631	32,288	-33%
Exploration cost	3,656	5,975	-39%	17,159	12,499	37%
Finance Cost	430	436	-1%	2,770	1,693	64%
WPP Fund	1,378	2,558	-46%	7,868	9,295	-15%
Share of profit	1,338	1,504	-11%	5,762	4,865	18%
PBT	26,800	48,606	-45%	150,114	176,599	-15%
PAT	18,224	33,074	-45%	101,869	118,386	-14%
EPS (PKR)	4.24	7.69		23.69	27.53	
DPS (PKR)	1.50	2.50		5.75	11.00	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

**Lower production, oil prices and higher exploration cost to drag earnings on quarterly basis**

On quarterly basis, earnings are expected to drop by 40%QoQ on the back of 22%/16%QoQ decline in oil/gas production, higher exploration cost and 50%QoQ drop in oil prices. However, earnings decline is likely to be limited by average exchange rate appreciation of 5%QoQ.

**Oil and gas production dropped by 26%/22%YoY during 4QFY20**

Total oil production for the Company declined by 26%YoY owing to drop in flows from Nashpa, Adhi and Tal block amid Covid-19 lockdowns. As a result total oil production for FY20 is down by 11%YoY. Gas production declined by 22%YoY on account of lower production from Qadirpur, Uch, KPD, Tal Block, Adhi and Nashpa. As a result total gas production is down by 12%YoY in FY20.

**Recommendation**

We recommend a ‘BUY’ stance on OGDC with our Jun-21 target price of PKR 172.5/share offering 65% upside from last close. The company is currently trading at FY21 P/E of 4.6x.

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**Time Horizon:** Dec – 2020

**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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