

# Flash Note

Monday, 19 March 2018

## Oil & Gas – Exploration Companies

### OGDC: Exploring Investment avenues in local refinery, power plant or LNG terminal/pipeline

#### Event:

- As per Bloomberg news, Oil & Gas Development Company Limited (OGDC) is exploring investment opportunities in local existing/new refinery, a new power plant or a LNG pipeline/terminal business in Pakistan.
- “Pakistan’s Oil & Gas Development Co., the nation’s largest company by market value, is eyeing acquisition targets from refineries to power plants, as it plans to use some of its \$3 billion worth of current assets for purchases. The state-owned company is considering taking stakes in existing and new refinery projects, a new power plant, a liquefied natural gas terminal or a pipeline that would move gas to the country’s central province, Chief Executive Officer Zahid Mir said Thursday in an interview. The company also plans to reduce staff partly through buyouts, he said.”*

#### Analyst Comments:

- The Company has a strong cash position with cash & cash equivalent amounting to PKR 84bn (or PKR 19.5/share), Current maturity of TFC & PIBs totaling PKR 62bn (PKR 14.3/share), overdue trade debts of PKR 91bn (PKR 21.3/share) and Term Finance Certificates (TFCs) of PKR 82bn (PKR 19.1/share). This comes to total cash available cash amount of PKR 318bn (PKR 74.1/share) for the investment.
- Amid recent vows of GoP to settle the circular debt of PKR 514bn in the coming months, we believe company may receive its overdue trade debt amounting up to PKR 91bn and financing of investment would easily be generated internally due to strong cash position of OGDC.
- To recall, OGDC received cash settlement of PIBs issued by GoP which matured in Jul-17 amounting to PKR 53.4bn. The Company had temporarily invested the cash in PIBs, TFC and T-Bills to utilize for investments in oil & gas upstream or downstream sector.
- The three possible investment opportunities that exist are as follows:
  - Option 1 – Investment in Power plant:** In our view, the Company may opt for stake in new power project which has already been approved as new applications are currently stalled by GoP until future demand and supply is assessed,
  - Option 2 – Investment in existing or new refinery:** Entering in new refinery business of 40,000bopd capacity is estimated to cost around ~USD 800mn (PKR 89bn or PKR 20.7/share) while stake in existing refinery would be less capital intensive. National Refinery Limited (NRL), Attock Refinery Limited (ATRL), Pakistan Refinery Limited (PRL) and Byco Petroleum Pakistan Limited (BYCO) are currently trading at a market capitalization of PKR 35.7bn, PKR 22.0bn, PKR 80.3bn and PKR 11.8bn respectively.
  - Option 3 – Investment in LNG terminal or pipeline:** The third option includes investment in LNG terminal or pipeline business which in our view could possibly include taking stake in 1.2bcfd RLNG-III pipeline project worth PKR 175bn.
- Although it’s too early to analyze value addition from the investment as nothing has been finalized, we expect overall impact of investment to be positive for OGDC. We maintain our **‘BUY’** stance on OGDC with our Dec-18 target price of PKR 185/share, offering 12% upside from its last close. The company is currently trading at FY18 P/E of 9.4x.

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**Time Horizon:** Dec – 2018

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