

Day Break

Tuesday, 08 November 2016

Company Update

Oil & Gas Dev.Co

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	169.2
Last Closing	142.9
Upside	18%

Market Data

Bloomberg Tkr.	OGDC PA		
Shares (mn)	4,300.9		
Market Cap (PKRbn USDmn)	614.7	5,839.5	
Exchange	KSE 100		
Price Info.	90D	180D	365D
Abs. Return	3.2	1.3	4.5
Low	137.5	133.4	95.6
High	146.3	147.3	147.3

Key Company Financials

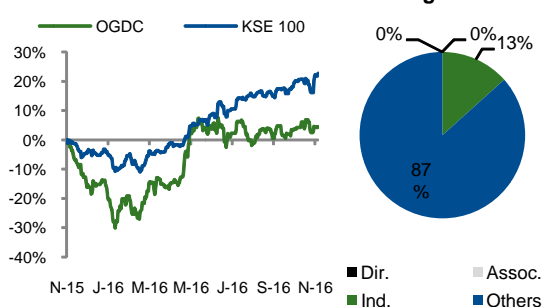
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	162.9	209.9	233.2	222.3
Net Income	60.0	79.8	87.5	81.0
EPS (PKR)	13.9	18.6	20.4	18.8
DPS (PKR)	5.2	7.0	7.8	7.0
Total Assets	589.6	651.9	709.3	762.7
Total Equity	478.6	529.1	584.5	635.6

Key Financial Ratios

	FY16A	FY17E	FY18F	FY19F
ROE (%)	13%	15%	15%	13%
P/E (x)	10.3	7.7	7.0	7.6
P/B (x)	1.3	1.2	1.1	1.0
DY (%)	3.6	4.9	5.4	4.9

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

Analyst

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Oil & Gas Exploration

OGDC: Dry Well Cost and Lower Oil Prices Diluted Earnings in 1QFY17

- Oil & Gas Development Company (OGDC) posted a drop of 20%YoY in earnings to PKR 14.6bn (EPS PKR 3.4) in 1QFY17 as compared to PKR 18.3bn (EPS PKR 4.3) in same period last year.
- This significant drop in profitability is on the back to a) 14%YoY drop in oil price, b) +2.4xYoY rise in exploration cost owing to dry well cost incurred at Shawa-1 and Dhodak Rubbly X-1, and c) higher effective tax rate of 30% compared to 26% in the same period last year.
- We revised our Jun-17 target price for OGDC to PKR 169/share from earlier PKR 167/share incorporating recent oil and gas discoveries. We maintain our "BUY" call on the scrip, offering +18% upside from its last closing.

Earnings nosedive by 20%YoY to PKR 3.4/share in 1QFY17

Oil & Gas Development Company (OGDC) posted a drop of 20%YoY in earnings to PKR 14.6bn (EPS PKR 3.4) in 1QFY17 as compared to PKR 18.3bn (EPS PKR 4.3) in same period last year. This significant drop in profitability is on the back of a) 14%YoY drop in oil price, b) +2.4xYoY rise in exploration cost owing to dry well cost incurred at Shawa-1 and Dhodak Rubbly X-1, and c) higher effective tax rate of 30% compared to 26% in the same period last year. However, +27%YoY rise in other income on the back of signature bonus on sale of LPG, rescued overall earnings decline during the period. The company announced cash dividend of PKR 1.5/share along with the result.

Exhibit: Financial Highlights

PKRmn	1QFY17	1QFY16	YoY	4QFY16	QoQ
Net Sales	39,566	44,513	-11%	40,155	-1%
Royalty	4,307	5,014	-14%	4,494	-4%
Operating Expenses	13,079	12,634	4%	15,002	-13%
Gross Profit	21,770	26,397	-18%	20,220	8%
Other Income	5,061	3,990	27%	3,063	65%
Exploration and Prospecting	4,322	1,807	139%	3,839	13%
WPP Fund	1,097	1,380	-21%	978	12%
PBT	20,835	26,228	-21%	18,583	12%
PAT	14,632	18,260	-20%	16,471	-11%
EPS (PKR)	3.40	4.25		3.83	
DPS (PKR)	1.50	1.50		2.00	

Source: IGI Research and Company Financials

Exhibit: OGDC Production

	1QFY17	1QFY16	YoY	4QFY16	YoY
Oil (bopd)	40,230	39,154	3%	41,109	-2%
Gas (mmcf)	1,050	1,086	-3%	1,041	1%
LPG (Mtpd)	342	267	28%	360	-5%

Exhibit: Realized Price

	1QFY17	1QFY16	YoY
Oil (USD/bbl)	39.49	46.57	-15%
Gas (PKR/mmcf)	242.17	264.20	-8%

Exhibit: OGDC Gross Revenues

PKR mn	1QFY17	1QFY16	YoY
Oil	14,994	16,704	-10%
Gas	30,062	33,692	-11%
LPG	1,207	1,326	-9%

Exhibit: Gross Margin and effective tax rate

- Sales - Net (PKR'mn)
- Gross Profit (PKR'mn)
- PAT (PKR'mn)
- Gross Margin % (RHS)
- Effective Tax Rate (%) - RHS

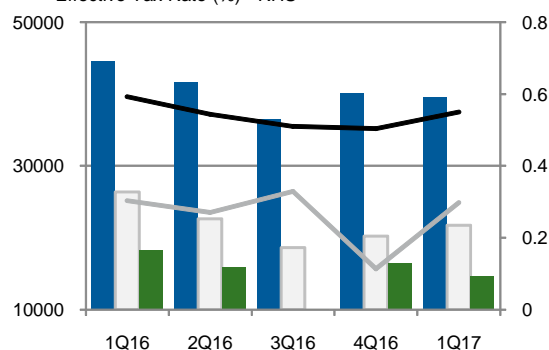
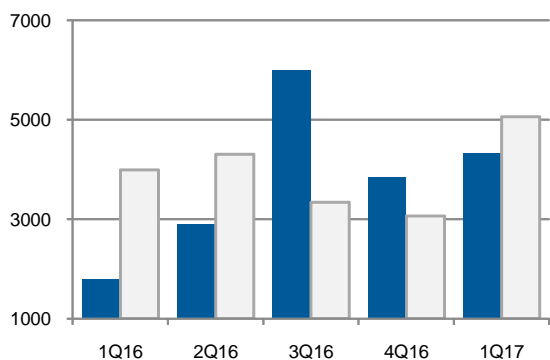


Exhibit: Exploration cost and other income (Quarterly)

- Exploration and Prospecting expenditure (PKR'mn)
- Other Income (PKR'mn)



Oil: Lower oil price dragged revenues down by 44%YoY

Oil revenues dented a drop of 10%YoY in 1QFY17 to PKR 15bn owing to 14%YoY plunge in Arab Light prices despite trivial rise of +3% in oil production. Realized price for 1QFY17 stands at USD 39.5/bbl as compared to USD 46.6/bbl in same period last year.

Gas: Revenues shrink as production plunges

Gas revenue witnessed a decline of 11%YoY to PKR 30bn in 1QFY17 owing to 3%YoY dip in production, primarily due to lower in-take from Liberty Power Limited and Engro Powergen Qadirpur, owing to annual turn around and tripping of turbines. Realized gas price hovered around PKR 242/mmcf in 1QFY17.

Conversion of company operated fields to Petroleum Policy 2012

During 1QFY17, OGRA notified revision in gas price to Petroleum Policy 2012 (PP12) for company operated field Sheikan, Gopang and Pakhro. The impact of higher gas price amounted to PKR 64.3mn, translating into minimal earnings impact of PKR 0.01/share (after tax) during 1QFY17, we estimate.

High exploration further diluted earnings in 1QFY17

Company's earnings took a major hit as a result of +2.4xYoY hike in exploration and prospecting expense to PKR 4.3bn in 1QFY17 as compared to PKR 1.8bn in the same period last year, owing to dry well cost incurred at Shawa-1 and Dhodak Rubby X-1. Exploration cost wiped out nearly PKR 0.7/share (after tax) from company's earnings in 1QFY17, we estimate.

Outlook: Additional Oil & Gas production to jack up earnings in FY17

According to management, production from Mardankhel in Tal block is likely to come online from Oct-16, which is anticipated to contribute additional +2% and +1% to oil and gas production, respectively in FY17. Furthermore, Kunar Pasakhi Deep-Tando Allah Yar (KPD-TAY) phase-II project is still under progress (was expected to be completed by Sep-16). We estimate KPD-TAY Phase-II project to come online by the end of 2QFY17 and to contribute additional production of 4,000bbls of oil, 125mmcf of gas and 410 tons of LPG. Nashpa/Mela Development project is estimated to be completed by Jun-17, which would provide incremental production of 10mmcf of gas, 380MTD of LPG and 1,200bopd of crude in FY18. Our oil price assumption stands at USD 45/bbl. for FY17 with long term price of USD 50/bbl.

Recommendation

We revised our Jun-17 target price for OGDC to PKR 169/share from earlier PKR 167/share incorporating recent oil and gas discoveries. We maintain our "BUY" call on the scrip, offering +18% upside from its last closing. The company is currently trading at a FY17E P/E of 7.7x and implied oil price of USD 27.5/bbl.

Source: Company Financials, IGI Research

Exhibit: Upcoming Projects

	Expected Completion Date	Stake (%)
Development Projects		
KPD-TAY - Phase-II	Oct-16	100%
Uch-II (Main Project)	Sep-16	100%
Jhal Magsi	On Hold	56%
Nashpa/Mela	Jun-17	57%
Nashpa - 6	Sep-16	57%
Nashpa - 7	Operational	57%
Makori East-5	Sep-16	28%
Exploratory Well		
Mardankhel	Oct-16	28%
Nashpa X-5	3QFY17	57%
Britism West-1A	4QFY17	95%
Thal West 1	4QFY17	100%
Tolanj West 1	4QFY17	28%
Makori Deep 1	4QFY17	28%
Khamiso-01	2QFY18	58%
Gundanwari-01	2QFY18	78%
Mithri-01	2QFY18	75%

Earnings and target price sensitivity to changes in oil prices

Exhibit: EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) - Jun'17
	FY17	FY18	FY19	FY17	FY18	FY19	
Bear	40.0	45.0	45.0	17.6	19.3	17.9	163.5
Base	45.0	50.0	50.0	18.6	20.4	18.8	169.2
Bull	50.0	55.0	55.0	19.5	21.3	19.8	174.8

Source: IGI Research

Source: Company Financials, IGI Research

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun - 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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