

Day Break

Tuesday, 04 October 2016

Company Update

Oil & Gas Dev.Co

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price	166.9
Last Closing	141.9
Upside	18%

Market Data

Bloomberg Tkr.	OGDC PA
Shares (mn)	4,300.9
Market Cap (PKRbn USDmn)	610.3 5,838.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	1.4	22.6	13.6
Low	134.3	115.4	95.6
High	146.0	147.3	147.3

Key Company Financials

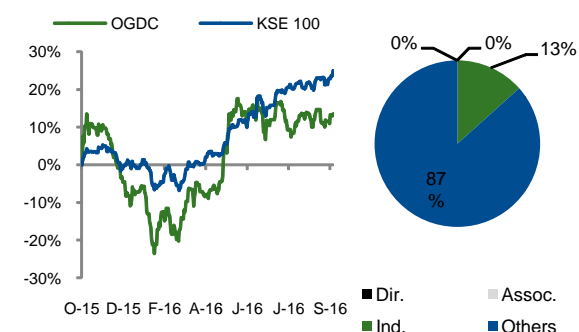
Period End: Jun

PKRbn	FY16A	FY17F	FY18F	FY19F
Total Revenue	162.9	209.6	230.4	218.1
Net Income	60.0	79.7	86.0	78.9
EPS (PKR)	13.9	18.5	20.0	18.4
DPS (PKR)	5.2	7.0	7.5	7.0
Total Assets	589.6	651.8	707.9	759.7
Total Equity	478.6	529.0	583.4	633.3

Key Financial Ratios

	FY16A	FY17F	FY18F	FY19F
ROE (%)	13%	15%	15%	12%
P/E (x)	10.2	7.7	7.1	7.7
P/B (x)	1.3	1.2	1.0	1.0
DY (%)	3.7	4.9	5.3	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: High Exploration Cost Drags Down Profitability in FY16

- Oil & Gas Development Company (OGDC) posted a drop of 31%YoY in earnings to PKR 59.9bn (EPS PKR 13.9) in FY16 as compared to PKR 87.3bn (EPS PKR 20.3) in same period last year.
- This significant drop in profitability is on the back to a) +25%YoY rise in exploration cost, b) 23%YoY decline in other income, and c) 44%YoY drop in oil price.
- We have rolled forward our target price for OGDC to Jun-17 from earlier Dec-16. We maintain our 'BUY' call with target price of PKR 167/share, offering +18% upside from its last closing.

Earnings nosedive by 31%YoY to PKR 13.9/share in FY16

Oil & Gas Development Company (OGDC) posted a drop of 31%YoY in earnings to PKR 59.9bn (EPS PKR 13.9) in FY16 as compared to PKR 87.3bn (EPS PKR 20.3) in same period last year. This significant drop in profitability is on the back to a) +25%YoY rise in exploration cost, b) 23%YoY decline in other income, and c) 44%YoY drop in oil price.

Exhibit: Financial Highlights

PKRmn	4QFY16	YoY	FY16	FY15	YoY
Net Sales	40,155	-16%	162,867	210,625	-23%
Royalty	4,494	-14%	18,079	23,737	-24%
Operating Expenses	15,002	-5%	54,986	52,935	4%
Gross Profit	20,220	-24%	87,890	131,967	-33%
Other Income	3,063	-17%	14,703	19,186	-23%
Exploration and Prospecting	3,839	2%	14,548	11,628	25%
PBT	18,583	-22%	80,507	127,025	-37%
PAT	16,471	-14%	59,971	87,249	-31%
EPS (PKR)	3.83	-14%	13.94	20.29	-31%
DPS (PKR)	2.00		5.20	7.75	

Source: IGI Research and Company Financials

Performance decline by 14%YoY to PKR 3.8/share in 4QFY16

Earnings for 4QFY16 stand at PKR 16.5bn (EPS PKR 3.8), depicting a decline of 14%YoY. Company also announced a cash dividend of PKR 2.0/share in 4QFY16 along with the result, taking FY16 cumulative dividend payout to PKR 5.20/share.

Oil: Price and production dragged revenues down by 44%YoY

Oil revenues witnessed a drop of 44%YoY in FY16 to PKR 43bn owing to 44%YoY plunge in Arab Light prices and a trivial fall of 1% in oil production. Realized price for FY16 stands at USD 39.1/bbl as compared to USD 63.3/bbl in same period last year.

Exhibit: OGDC Production

	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Oil (bopd)	41,109	40,488	2%	40,609	40,818	-1%
Gas (mmcf)	1,041	1,052	-1%	1,056	1,143	-8%
LPG (Tons/day)	360	319	13%	342	255	34%

Source: IGI Research and Company Financials, PPIS

Gas: Revenues shrink as production plunges

Gas revenue dented a decline of 12%YoY to PKR 95bn in FY16 owing to 8%YoY dip in production, primarily from Kunar Pasakhi Deep (KPD), Qadirpur and Uch-I & II due to lower in take from Liberty Power Limited, Engro Powergen Qadirpur and Sui Southern Gas Company and tripping of turbines at Uch-II Power Plant. Realized gas price hovers around PKR 253/mmcf in FY16.

Exhibit: OGDC Revenues

PKR'mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Oil	11,357	19,624	-42%	43,464	77,301	-44%
Gas	30,020	36,973	-19%	95,218	108,735	-12%
LPG	1,739	1,506	15%	4,899	4,957	-1%

Source: IGI Research and Company Financials

Exhibit: Realized Price

	FY16	FY15	YoY
Oil (USD/bbl)	39.07	63.29	-38%
Gas (PKR/mmcf)	253.77	272.61	-7%

High exploration cost significantly diluted earnings in FY16

Company's earnings took a major hit as a result of +25%YoY hike in exploration and prospecting expense to PKR 14.6bn in FY16 as compared to PKR 11.6bn in the same period last year, owing to dry well cost incurred. Exploration cost wiped out PKR 1.3/share (after tax) from company's earning in FY16.

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, with expected completion of Kunar Pasakhi Deep-Tando Allah Yar (KPD-TAY) phase-II project

in Sept-16, we anticipate oil and gas volumes to pick up from 2QFY17. We expect KPD-TAY Phase-II project 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, 340MTD of LPG and 1,120bopd of crude in FY18. Our oil price assumption is USD 45/bbl for FY17 with long term price of USD 50/bbl.

Exhibit: Gross Profit in relation with Sales

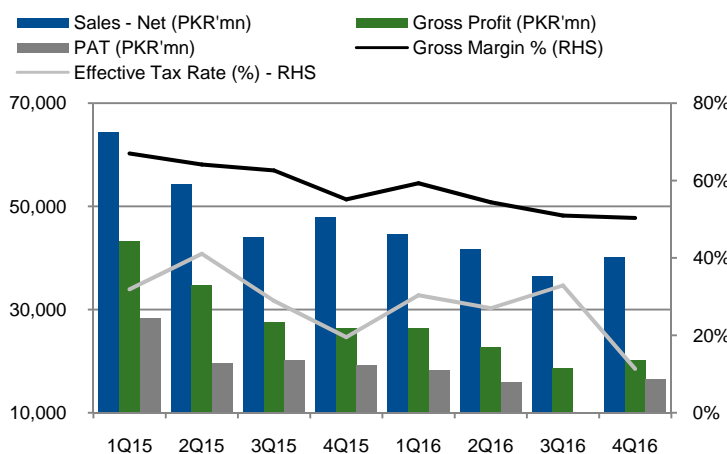
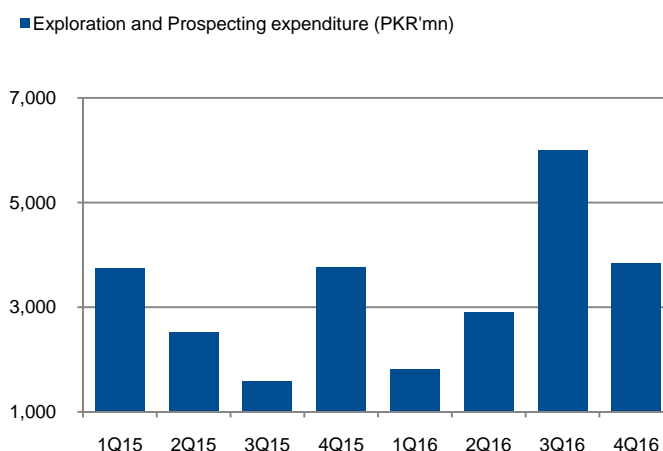


Exhibit: Exploration and Prospecting Expenditure (Quarterly)



Source: IGI Research, Company's Financials

Exhibit: Upcoming Projects

	Expected Completion Date	Stake (%)
Development Projects		
KPD-TAY - Phase-II	Sep-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%

Source: IGI Research and OGDC

Recommendation

We have rolled forward our target price for OGDC to Jun-17 from earlier Dec-16. We maintain our **“BUY”** call with target price of PKR 167/share, 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.

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	19.0	17.4	161.3
Base	45.0	50.0	50.0	18.5	20.0	18.4	166.9
Bull	50.0	55.0	55.0	19.5	21.0	19.3	172.4

Source: IGI Research

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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)
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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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