

Day Break

Thursday, 25 October 2018

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY
Target Price:	183.8
Last Closing: 24-Oct-18	151.7
Upside:	21.1
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)
Time Horizon:	Jun-19

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)	652.5	4,976.5	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	0.5	(14.1)	4.7
Lo	143.8	143.8	143.6
Hi	155.0	177.3	177.3

Key Company Financials

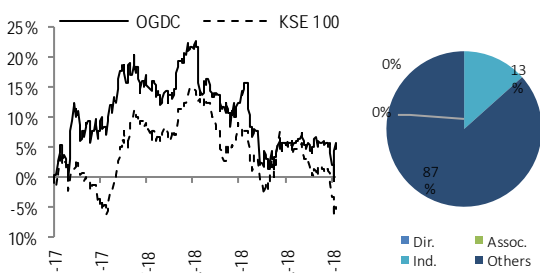
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	205.3	263.2	271.1	258.6
Net Income	78.7	98.5	101.8	94.1
EPS (PKR)	18.3	22.9	23.7	21.9
DPS (PKR)	10.0	11.5	11.0	9.5
Total Assets	627.3	666.5	721.3	773.6
Total Equity	550.6	605.7	662.8	715.8

Key Financial Ratios

ROE (%)	14.3	16.3	15.4	13.1
P/E (x)	8.3	6.6	6.4	6.9
P/B (x)	0.2	1.2	1.1	1.0
DY (%)	6.6	7.6	7.3	6.3

Relative Price Performance



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 GDR are listed on the London Stock Exchange.

Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

OGDC: Higher oil price and weak PKR to lift 1QFY19 EPS by +50%YoY to PKR 5.94

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 25.53bn (EPS PKR 2.94) compared to PKR 17.01bn (EPS PKR 3.95) in the same period last year.
- We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher revenues, b) +51%YoY higher oil prices, and c) +41%YoY rise in other income on account of PKR depreciation. However, higher exploration cost due to dry well cost incurred at Chak 25-01 (Britism) and Khanjar-01 (Nashpa) should keep earnings growth limited in 1QFY19. We expect the Company to announce cash dividend of PKR 2.5/share for 1QFY19
- We maintain a 'BUY' stance on OGDC with our Jun-19 target price of PKR 183.8/share offering +21% upside from last close. The company is currently trading at FY19F P/E of 6.6x and offers a healthy dividend yield of 7.6%.

Earnings to grow by +50%YoY during 1QFY19 to PKR 5.94/share, DPS PKR 1.5

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 25.53bn (EPS PKR 2.94) compared to PKR 17.01bn (EPS PKR 3.95) in the same period last year. We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher revenues, b) +51%YoY higher oil prices, and c) +41%YoY rise in other income on account of PKR depreciation. However, higher exploration cost due to dry well cost incurred at Chak 25-01 (Britism) and Khanjar-01 (Nashpa) should keep earnings growth limited in 1QFY19 in our view. We expect the Company to announce cash dividend of PKR 2.5/share for 1QFY19.

On quarterly basis, profitability is expected to rise by +2%QoQ during 1QFY19 likely on the back of +6%QoQ depreciation of PKR against greenback and +3%QoQ rise in oil prices. However, drop in other income owing to lower foreign exchange gains and higher exploration cost should keep earnings growth restricted on sequential basis.

Exhibit:

Financial Highlights

PKRmn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Net Sales	67,407	43,962	53%	61,560	9%
Royalty	7,239	4,432	63%	6,329	14%
Operating Expenses	17,909	13,954	28%	15,972	12%
Gross Profit	41,248	25,161	64%	38,335	8%
Other Income	4,386	3,111	41%	4,748	-8%
Exploration and Prospecting	6,071	1,524	298%	5,006	21%
Finance Cost	465	418	11%	444	5%
WPP Fund	1,886	1,284	47%	1,709	10%
PBT	36,999	24,389	52%	35,875	3%
PAT	25,530	17,010	50%	25,113	2%
EPS (PKR)	5.94	3.95		5.84	
DPS (PKR)	2.50	1.75		2.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9 mn

Meagre growth reported in gas production during 1QFY19, LPG up substantially

Total oil and gas production recorded 11%YoY decline and +2%YoY growth respectively during 1QFY19. Oil production dropped due to lower production from Nashpa, KPD and Tal block. However LPG production reported a substantial rise of +34%YoY owing to inclusion of production from Nashpa and KPD.

Recommendation

We maintain a **'BUY'** stance on OGDC with our Jun-19 target price of PKR 183.8/share offering +21% upside from last close. The company is currently trading at FY19F P/E of 6.6x and offers a healthy dividend yield of 7.6%

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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 – 2019

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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