

# Day Break

Wednesday, 24 October 2018

## COMPANY UPDATE

### Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

<b>Recommendation</b>	<b>BUY</b>
Target Price:	183.8
Last Closing: 23-Oct-18	146.7
Upside:	25.3
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)	630.8   4,810.8
Exchange	KSE ALL
<b>Price Info.</b>	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

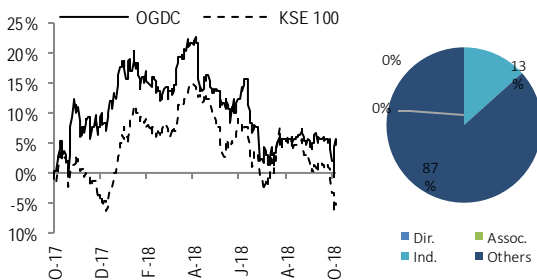
Period End: Jun

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)	8.0	6.4	6.2	6.7
P/B (x)	0.2	1.1	1.0	1.0
DY (%)	6.8	7.8	7.5	6.5

### 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: Estimates tweaked post FY18 result, High production base lacking sizeable additions; BUY maintained

- We have revised our earnings for Oil & Gas Development Company Limited (OGDC) after incorporating FY18 financial results by +13%-17% on average for FY19-21F. We have revised our earnings on the back of a) higher exploration cost and 4%/3% decline in oil/gas production in FY19,
- We expect production decline on the back of natural depletion from mature fields while new additions falling short to arrest drop in production. Furthermore we foresee exploration costs to remain elevated on the back of 2 dry well cost already incurred in 1QFY19. Based on this, we foresee OGDC to post nearly 25%YoY growth in earning in FY19. We have also incorporated recent 150bps hike in interest rate in the last two months,
- Our revised and rolled over Jun-19 target price of PKR 183.8/share offers +25% upside from last close, thus maintaining our 'BUY' stance on the scrip. OGDC is currently trading at FY19E P/E of 6.4x.

### Estimates tweaked post FY18 result, High production base lacking sizeable additions; BUY maintained

We have revised our earnings for Oil & Gas Development Company Limited (OGDC) after incorporating FY18 financial results by +13%-17% on average for FY19-21F. We have revised our earnings on the back of a) higher exploration cost and 4%/3% decline in oil/gas production in FY19. We expect production decline on the back of natural depletion from mature fields while new additions falling short to arrest drop in production. Furthermore we foresee exploration costs to remain elevated on the back of 2 dry well cost already incurred in 1QFY19. Based on this, we foresee OGDC to post nearly 25%YoY growth in earning in FY19.

We have also incorporated recent 150bps hike in interest rate in the last two months. As a result, our rolled over and revised Jun-19 target price comes at PKR 183.8/share, offering +25% upside from last close.

Exhibit:

### Key Financial Highlights

		FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Oil price	USD/bbl	40.7	48.4	62.4	70.0	60.0	55.0
Exchange rate	PKR/USD	104.3	104.8	110	132.2	141.3	146.1
EPS	PKR	13.9	14.8	18.3	22.9	23.7	21.9
DPS	PKR	5.2	6.0	10.0	11.5	11.0	9.5

Source: IGI Research

### Higher oil prices and PKR depreciation to drive FY19 earnings growth

Although we foresee OGDC's oil and gas production to decline in FY19 on the back of natural depletion on mature fields along with decline in major fields of Tal block, earnings for FY19 is expected to rise by +25%YoY primarily on the back of higher oil prices and PKR depreciation. Oil prices have climbed up to average USD 75.9/bbl for 1QFY19 against average of USD 62.4/bbl for FY18. Furthermore PKR has also average PKR 123.6/USD in 1QFY19 compared to average of PKR 110/USD for FY18. We expected oil prices to average around USD 70-75/bbl for FY19 and PKR to average 132.2/USD in FY19.

### High number of discoveries lack sufficient quantum

OGDC spudded 20 wells in FY18 with 11 exploratory wells and 9 development/appraisal wells. During FY18, OGDC marked 4 new discoveries which cumulatively hold potential of 47mmcf of gas (5% of FY18 gas production) and 749bopd of oil (2% of FY18 oil production). However, natural depletion of 7%-11% on mature fields remains in excess of total discovery size for OGDC.

In order to arrest natural decline in production from existing fields, OGDC successfully initiated KPD-TAY, Soghri and Nashpa-Mela project during FY18 which resulted in production enhancements from these fields. OGDC has further planned compression project at Nashpa field which could potentially add 1,120bopd of oil, 10mmcf of gas and 340mtpd of LPG and is expected to be completed by Dec-19. Furthermore, Dhok Hussain Development project is expected to be completed by end of Oct-18 which could increase flows by 20mmcf of gas and 400bopd of oil. However, these efforts have only led to limit production decline to 4-6% which in the absence of these projects could be at 8-9%. OGDC's current oil & gas production stands 8% of the total reserve size. Further production enhancement from these reserves should exceed 7-8% in order to sustain natural depletion in production.

### Price performance remained laggard

OGDC has outperformed KSE 100 index by 4% in FY19TD and but remains laggard compared to its peers with a negative 6% return compared to +3% for MARI and negative 4% for POL respectively. In our view, price performance has been laggard despite appreciation in oil prices and exchange rate due to foreign selling and lack of sizeable discoveries. As a result, OGDC's Reserve Replacement Ratio (RRR) stood at 17% in FY18 compared to 833% for POL. Furthermore, in the absence of production enhancement from mature fields, new discoveries and natural depletion, total oil and gas production declined by 6%YoY and 3%YoY in FY18 despite additions of new wells and production enhancements from mature fields.

### Realized oil price better remains lowest amongst peers

OGDC's realized oil price stood at USD 54.5/bbl in FY18 compared to USD 61.6/bbl for PPL which was due to higher number of new fields fetching lower oil price under old Petroleum Policy. Due to commencement of production from new exploratory fields in Tal block which fetched higher price which as a percentage of total oil production stood at 3% of total production leading to a substantial discount of 13% to average oil price of USD 62.4/bbl during FY18.

### Target price downgraded slightly to PKR 183.8/share offering +25% upside; 'BUY' call maintained

Our revised and rolled over Jun-19 target price of PKR 183.8/share offers +25% upside from last close, thus maintaining our 'BUY' stance on the scrip. OGDC is currently trading at FY19E P/E of 6.4x. Although production enhancement remains a concerns for OGDC in the form of lack of sizeable discovery to arrest depletion in reserves and development of mature field to sustain production levels from these wells, we highlight aggressive drilling strategy may provide the much needed production growth to OGDC.

Exhibit:

#### EPS and Target Price Sensitivity to Oil Prices

Scenarios	Oil Assumption (USD/bbl)			EPS (PKR)			Target Price (PKR) – Jun'19
	FY19	FY20	FY21	FY19	FY20	FY21	
Bear 2	60.0	50.0	45.0	21.0	21.5	19.6	170.2
Bear 1	65.0	55.0	50.0	21.9	22.6	20.8	177.0
Base	70.0	60.0	55.0	22.9	23.7	21.9	183.8
Bull 1	75.0	65.0	60.0	23.8	24.7	23.0	190.4
Bull 2	80.0	70.0	65.0	24.8	25.8	24.1	197.0

Source: IGI Research

No of Shares: 1971.7 mn

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Recommendation	Rating System
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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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