

Day Break

Thursday, 25 April 2019

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation	BUY		
Target Price:	31-Dec-19	186.2	
Last Closing:	24-Apr-19	143.2	
Upside:		30.0	
Valuation Methodology:	Reserve based - Discounted Cash Flow (DCF)		
Time Horizon:		8M	

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)	615.8	4,345.5	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(3.3)	(3.8)	(12.5)
Lo	141.7	127.7	127.7
Hi	154.2	159.7	168.3

Key Company Financials

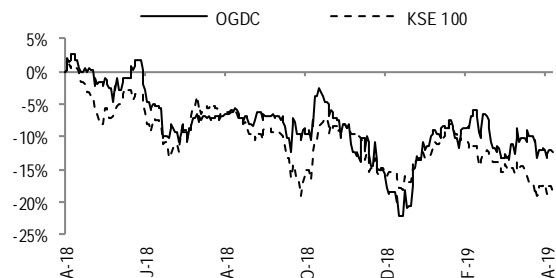
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	205.3	262.3	269.0	255.9
Net Income	78.7	105.3	107.4	98.1
EPS (PKR)	18.3	24.5	25.0	22.8
DPS (PKR)	10.0	11.8	11.5	10.0
Total Assets	627	666	727	782
Total Equity	551	609	670	725

Key Financial Ratios

ROE (%)	14.3	17.3	16.0	13.5
P/E (x)	7.8	5.8	5.7	6.3
P/B (x)	0.1	1.1	1.0	0.9
DY (%)	7.0	8.2	8.0	7.0

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: PKR depreciation and lower exploration cost to lift 3QFY19 EPS by +50%YoY to PKR 7.01

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 30.15bn (EPS PKR 7.01), up by +50%YoY,
- We estimate incline in earnings on the back a) lower exploration cost, b) 25%YoY depreciation of PKR against greenback and, c) +1%/+13%YoY rise in Gas/LPG production. The company is expected to book dry well cost relating to Wasan-01 (Khewari Block)
- This will bring total 9MFY19 profitability to PKR 86.91bn (EPS PKR 20.21) up by +53%YoY compared to PKR 56.82bn (EPS PKR 13.21) in the same period last year,
- We recommend a 'BUY' stance on OGDC with our Dec-19 target price of PKR 186.2/share offering 30% upside from last close.

Earnings to clock in at PKR 7.01/share for 3QFY19, up by +50%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 26th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 30.15bn (EPS PKR 7.01), up by +50%YoY, compared to PKR 20.15bn (EPS PKR 4.68) in the same period last year. We estimate incline in earnings on the back a) lower exploration cost, b) 25%YoY depreciation of PKR against greenback and, c) +1%/+13%YoY rise in Gas/LPG production. The company is expected to book dry well cost relating to Wasan-01 (Khewari Block). This will bring total 9MFY19 profitability to PKR 86.91bn (EPS PKR 20.21) up by +53%YoY compared to PKR 56.82bn (EPS PKR 13.21) in the same period last year. We expect to announce cash dividend of PKR 3.0/share bringing total cash payout for 9MFY19 to PKR 8.75/share.

On quarterly basis, earnings are expected to remain flat on the back of depreciation of PKR against USD of 3.6% on average and higher interest income on investments despite lack of hefty exchange gains. Growth in earnings is likely to remain limited due to flat oil production and 17%QoQ drop in LPG production whereas rise in gas production is likely to partially offset the impact.

Exhibit:

OGDC Financial Highlights

PKRmn	3QFY1E	3QFY18	YoY	9MFY19E	9MFY18	YoY
Net Sales	69,696	51,752	35%	196,593	147,712	33%
Royalty	7,883	5,680	39%	22,123	15,642	41%
Operating Expenses	16,474	15,961	3%	46,109	44,241	4%
Gross Profit	44,711	29,674	51%	126,947	86,558	47%
Other Income	4,510	4,593	-2%	16,360	11,260	45%
Exploration and Prospecting	2,451	3,819	-36%	6,933	11,184	-38%
PBT	44,340	28,136	58%	129,079	80,165	61%
PAT	30,151	20,150	50%	86,907	56,821	53%
EPS (PKR)	7.01	4.68		20.21	13.21	
DPS (PKR)	3.00	2.75		8.75	7.50	

Source: IGI Research and Company Financials

No Shares: 4,300.9mn

Recommendation

We recommend a 'BUY' stance on OGDC with our Dec-19 target price of PKR 186.2/share offering 30% upside from last close. The company is currently trading at FY19/20 P/E of 5.8/5.7x.

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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: Dec – 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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