

Day Break

Monday, 16 September 2019

COMPANY UPDATE

Oil & Gas Development Company Limited

Oil & Gas Exploration Companies

Recommendation		BUY
Target Price:	Dec/19	182.2
Last Closing:	13-Sep-19	119.9
Upside:		51.9
Valuation Methodology:	Reserve based -	
	Discounted Cash Flow	
Time Horizon:		3M

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)	515.7	3,290.9	
Exchange		KSE ALL	
Price Info.	90D	06M	12M
Abs. Return	(13.3)	(24.1)	(25.4)
Lo	104.6	104.6	104.6
Hi	136.9	149.7	159.7

Key Company Financials

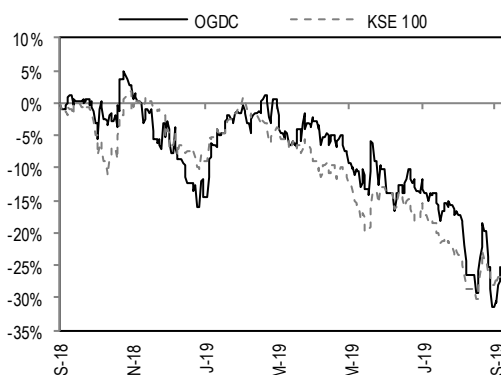
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	205.3	267.5	289.1	274.3
Net Income	78.7	117.4	117.2	106.5
EPS (PKR)	18.3	27.3	27.2	24.8
DPS (PKR)	10.0	11.5	12.0	11.0
Total Assets	666.5	736.9	798.4	853.6
Total Equity	550.6	616.1	681.6	741.4

Key Financial Ratios

ROE (%)	14.8	20.1	18.1	15.0
P/E (x)	6.6	4.4	4.4	4.8
P/B (x)	0.9	0.8	0.8	0.7
DY (%)	8.3	9.6	10.0	9.2

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Oil & Gas Exploration Companies

OGDC: Exchange gains and higher revenue on account of PKR depreciation to lift 4QFY19 EPS by +46%YoY to PKR 7.45

- Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 18th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 32.06bn (EPS PKR 7.45), up by +46% YoY,
- We estimate incline in earnings on the back of a) higher other income on account of exchange gains and, b) 26% YoY depreciation of PKR against greenback. The company is expected to book dry well cost relating to Kekra-01 (Indus Block-G) and Qadirpur Deep X-1 whereas prospecting expense is likely to remain on higher side amid elevated seismic activity on new exploratory wells. This will bring total FY19 profitability to PKR 117.37bn (EPS PKR 27.29) up by +49% YoY,
- We recommend a 'BUY' stance on OGDC with our Dec-19 target price of PKR 182.2/share offering 52% upside from last close. The company is currently trading at FY20 P/E of 4.4x.

Earnings to clock in at PKR 7.45/share for 4QFY19, up by +46%YoY

Oil & Gas Development Company Limited's (OGDC) board meeting is scheduled on 18th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 32.06bn (EPS PKR 7.45), up by +46% YoY, compared to PKR 21.92bn (EPS PKR 5.10) in the same period last year. We estimate incline in earnings on the back of a) higher other income on account of exchange gains and, b) 26% YoY depreciation of PKR against greenback. The company is expected to book dry well cost relating to Kekra-01 (Indus Block-G) and Qadirpur Deep X-1 whereas prospecting expense is likely to remain on higher side amid elevated seismic activity on new exploratory wells. This will bring total FY19 profitability to PKR 117.37bn (EPS PKR 27.29) up by +49% YoY compared to PKR 78.74bn (EPS PKR 18.31) in the same period last year. We expect to announce cash dividend of PKR 3.0/share bringing total cash payout for FY19 to PKR 11.50/share.

On quarterly basis, earnings are expected to rise by +12% QoQ on the back of depreciation of PKR against USD of 5.4% on average and higher other income on account of elevated interest income and exchange gains. Growth in earnings is likely to remain limited due to lower oil & gas production along with drop in LPG production.

Exhibit:

OGDC Financial Highlights

PKRmn	4QFY19E	4QFY18	YoY	FY19E	FY18	YoY
Net Sales	75,499	57,623	31%	267,546	205,335	30%
Royalty	8,540	6,329	35%	30,035	21,971	37%
Operating Expenses	16,476	15,972	3%	61,513	60,213	2%
Gross Profit	49,804	34,922	43%	174,118	121,480	43%
Other Income	8,217	4,748	73%	26,070	16,008	63%
Exploration and Prospecting	6,773	5,006	35%	13,297	16,190	-18%
Finance Cost	465	444	5%	1,721	1,730	-1%
PBT	48,572	32,462	50%	176,565	112,627	57%
PAT	32,057	21,915	46%	117,369	78,736	49%
EPS (PKR)	7.45	5.10		27.29	18.31	
DPS (PKR)	3.00	2.50		11.50	10.00	

Source: IGI Research and Company Financials

No Shares: 4,300.93mn

Recommendation

We recommend a 'BUY' stance on OGDC with our Dec-19 target price of PKR 182.2/share offering 52% upside from last close. The company is currently trading at FY20 P/E of 4.4x.

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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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