

Flash Note

Tuesday, 27 April 2021

Oil & Gas - Exploration Companies

Oil & Gas Development Company Limited (OGDC)

Lower production, exchange losses and higher exploration cost drags 3QFY21 EPS to 5.61; DPS PKR 1.8

- Oil & Gas Development Company Limited (OGDC) announced its financial results for 3QFY21 with earnings clocking in at PKR 24.12bn (EPS PKR 5.61) as compared to PKR 30.01bn (EPS PKR 6.98) in the same period last year, down by 20%/y/y. On a quarterly basis earnings are up by +28%QoQ. This brings total profitability for 9MFY21 to PKR 66.35bn (EPS PKR 15.43) down by 20%/y/y.
- The Company announced cash dividend of PKR 1.8/share along with the result, taking total cash payout for 9MFY21 to PKR 5.4/share.
- We attribute this decline in earnings during 3QFY21 to a) drop in oil and gas production, b) drop in other income on account of exchange losses and lower mark-up income and, c) higher exploration cost amid elevated dry well cost incurred during the quarter.
- Net Revenues inclined by 5%/y/y to PKR 65.4bn during 3QFY21 compared to PKR 62.0bn in the similar period last year, likely on the back of PKR depreciation and rise in oil prices despite lower oil & gas production.
- Operating costs are up by +6%/y/y to PKR 16.57bn during 3QFY21 as against PKR 15.67bn in the same period last year likely on account of higher salary and depreciation cost, in our view.
- Exploration expense inclined by +82%/y/y to PKR 5.59bn during 3QFY21 compared to PKR 3.08bn in the corresponding period last year likely owing higher prospecting expense and two dry well costs incurred during the quarter.
- Other income plummeted by 85%/y/y to PKR 1.63bn during 3QFY21 compared to PKR 10.90bn in the similar period last year likely owing to exchange losses and lower interest income on deposits amid decline in interest rates.
- Effective tax rate stood at 30.7% during 3QFY21 as against 31.5% in the same period last year (2QFY21: 33.0%), bringing total effective tax rate for 9MFY21 to 31.5% against 32.2% in the comparative period.
- To note, OGDC has restated its 1QFY21, 1QFY20, 2QFY20 and 3QFY20 results with major reclassification in revenue, operating expense and other income on account of adoption of IFRS-16 pertaining to gas sale agreements with M/s Uch Power (Private) Limited (UPL) and M/s Uch-II Power (Private). As a result, the income is now recorded as interest on finance lease under the head of other income.

Exhibit: OGDC Financial Highlights

| PKRmn | 3QFY21 | 3QFY20* | YoY | 2QFY21 | QoQ | 9MFY21 | 9MFY20* | YoY |
|--------------------------------|--------|---------|------|--------|------|---------|---------|------|
| Net Sales | 65,402 | 61,995 | 5% | 54,632 | 20% | 176,382 | 189,447 | -7% |
| Royalty | 7,271 | 7,145 | 2% | 6,176 | 18% | 20,174 | 22,360 | -10% |
| Operating Expenses | 16,566 | 15,671 | 6% | 16,413 | 1% | 49,868 | 45,510 | 10% |
| Gross Profit | 41,064 | 38,677 | 6% | 31,437 | 31% | 105,004 | 120,261 | -13% |
| Other Income | 1,627 | 10,903 | -85% | 640 | 154% | 8,225 | 23,999 | -66% |
| Exploration and Prospecting | 5,587 | 3,077 | 82% | 2,266 | 147% | 10,809 | 13,502 | -20% |
| Finance Cost | 534 | 840 | -36% | 582 | -8% | 1,680 | 2,340 | -28% |
| WPP Fund | 1,833 | 2,306 | -21% | 1,483 | 24% | 5,100 | 6,450 | -21% |
| Share of profit from associate | 1,391 | 1,475 | -6% | 1,467 | -5% | 4,671 | 4,424 | 6% |
| PBT | 34,823 | 43,805 | -21% | 28,174 | 24% | 96,892 | 122,547 | -21% |
| PAT | 24,121 | 30,011 | -20% | 18,882 | 28% | 66,346 | 83,122 | -20% |
| EPS (PKR) | 5.61 | 6.98 | | 4.39 | | 15.43 | 19.33 | |
| DPS (PKR) | 1.80 | - | | 1.60 | | 5.40 | 4.25 | |

Source: IGI Research and Company Financials, * restated

No Shares: 4,300.9mn

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Time Horizon: Dec – 2021

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