

Flash Note

Friday, 17 February 2017



Securities

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Oil & Gas – Exploration Companies

OGDC: Earnings reported at PKR 3.58/share in 2QFY17, down by 4%YoY

- Oil and Gas Development Company Limited's (OGDC) announced financial results for 2QFY17 with earnings clocking in at PKR 15.4bn (EPS PKR 3.58) down by 4%YoY as compared to PKR 15.95bn (EPS PKR 3.71) in the same period last year. Cumulative earnings for 1HFY17 stand at PKR 30.0bn (EPS PKR 6.98) as compared to PKR 34.2bn (EPS PKR 7.95) in the corresponding period last year.
- The company announced cash dividend of PKR 1.0/share for 2QFY17, taking cumulative dividend for 1HFY17 to PKR 2.5/share.
- Revenues for 2QFY17 remained flat at PKR 41.5bn as compared to PKR 41.7bn in the corresponding period last year.
- Operating expenses leaped up by +10%YoY to PKR 15.3bn during 2QFY17 as compared to PKR 13.9bn in the corresponding period last year.
- Exploration cost augmented by +33%YoY to PKR 3.9bn on the back of higher exploration and prospecting expense as the company incurred dry well cost at Daru Deep-1.
- Effective tax rate declined by 520bps to 22% during 2QFY17 as compared to 27% in the same period last year.

Recommendation

We maintain our "BUY" call on OGDC with our Dec-17 with target price of PKR 196/share, offering +3% upside from its last closing. The company is currently trading at a FY17E P/E of 12.4x and offers a healthy dividend yield of 8%.

Exhibit:

Financial Highlights

PKRmn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Net Sales	41,516	41,673	0%	81,081	86,186	-6%
Royalty	4,521	4,680	-3%	8,828	9,694	-9%
Operating Expenses	15,277	13,934	10%	28,356	26,568	7%
Gross Profit	21,291	22,659	-6%	43,061	49,055	-12%
Other Income	4,248	4,305	-1%	9,309	8,295	12%
Exploration and Prospecting	3,868	2,906	33%	8,189	4,713	74%
Finance Cost	412	408	1%	815	833	-2%
WPP Fund	1,035	1,150	-10%	2,132	2,530	-16%
PBT	19,668	21,848	-10%	40,503	48,076	-16%
PAT	15,377	15,946	-4%	30,008	34,206	-12%
EPS (PKR)	3.58	3.71		6.98	7.95	
DPS (PKR)	1.00	1.20		2.50	2.70	

Source: IGI Research and Company Financials

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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