

Oil and Gas Development Company Limited

Result Preview

PSX: OGDC Bloomberg: OGDC: PA Reuters: OGDC: KA

Pakistan Research

OGDC: 2QFY23 EPS to clock in at PKR 10.5, up 28% YoY

- OGDC's board meeting is scheduled on February 22, 2023 to consider 2QFY23 financial results. We expect the company to post an EPS of PKR 10.5, up 28% YoY compared to an EPS of PKR 8.2 in SPLY. This earnings growth is primarily due to higher crude oil price (+10% YoY) and PKR devaluation against USD (-22% YoY). This will take 1HFY23 earnings to PKR 22.9/share, up 43% YoY. Along with the result, OGDC is expected to announce an interim cash dividend of PKR 2.0/share.
- Net sales are likely to clock in at PKR 91.8bn, up 15% YoY mainly on account of higher oil price and PKR devaluation, despite lower hydrocarbon production. OGDC's oil production is expected to decline during 2Q owing to lower flows from Nashpa, Adhi and TAL block. Similarly, gas production is also expected to contract due to decline from Uch, Qadirpur and TAL block.
- Exploration and prospecting expenditure are likely to decrease by 6% YoY to PKR 4.3bn as against PKR 4.6bn in SPLY. On the contrary, other income is likely to come at PKR ~15.0bn, up 44% YoY mainly on account of exchange gains and higher interest rates.
- Sequentially, net earnings are likely to decline by 16% QoQ, primarily due to 17% QoQ lower oil price (in PKR terms).
- We have a 'BUY' stance on OGDC. Our Dec-23 price target (PT) of PKR 170/share provides an upside of 79% along with a dividend yield of 10%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	170
Current Price (PKR)	95
Upside/(Downside) (%)	+ 79%
Dividend Yield (%)	10%
Total Return (%)	+ 89%
12-month High (PKR)	110
12-month Low (PKR)	69
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	406,782
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Revenue	79,633	91,815	15%	151,163	197,827	31%
Operating Expenses	10,549	13,149	25%	21,066	31,324	49%
Royalties	8,792	10,137	15%	17,034	22,314	31%
Gross Profit	52,391	60,557	16%	98,701	135,763	38%
Exploration Expenditure	4,610	4,333	-6%	6,893	5,878	-15%
Other Income	10,359	14,949	44%	21,237	33,453	58%
Financial Charges	578	636	10%	1,141	1,454	27%
Profit Before Tax	52,902	67,602	28%	105,172	155,809	48%
Taxation	17,649	22,579	28%	36,289	57,484	58%
Profit After Tax	35,253	45,023	28%	68,883	98,325	43%
EPS	8.2	10.5	28%	16.0	22.9	43%
DPS	2.0	2.0		3.8	3.8	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	44.5	34.6	31.1
EPS Growth	-14.7%	-9.3%	45.4%	43.8%	-22.3%	-10.0%
DPS	6.8	6.9	7.3	9.0	10.0	11.0
PER	4.0	4.4	3.1	2.1	2.7	3.0
Dividend Yield	7.1%	7.3%	7.7%	9.5%	10.6%	11.6%
EV/EBITDA	2.4	2.4	1.5	1.2	1.2	1.0
P/B	0.6	0.5	0.5	0.4	0.4	0.3
ROE	14.9%	12.4%	16.2%	20.1%	13.8%	11.4%

Source: Company Financials, Akseer Research

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Valuation Basis

Our PT for Oil and Gas Development Company Limited (OGDC) has been computed using reserve based Free cash flow to equity (FCFE) method. We have used a risk free rate of 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 170/share. Our price target provides an upside of 79% along with a dividend yield of 10%. Our investment case on OGDC is based on (1) diversified product mix which hedges against oil price volatility, (2) Cash rich balance sheet which bodes well in a high interest rate environment and (3) incremental production from new discoveries.

Risks

Key downside risks to our investments thesis are: 1) decrease in oil prices 2) lower than estimated currency devaluation 3) decline in interest rates.

Company Description

Oil and Gas Development Company Limited explores for, develops, produces, and sells oil and gas in Pakistan. It primarily produces crude oil, gas, liquefied petroleum gas, and sulphur. The company also offers drilling, logistics, and well services, as well as rig maintenance services; and construction and engineering support, geological, and geophysical services.

Financial Highlights - OGDC

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	232,925	239,104	335,464	391,592	352,179	323,813
Field Expenditures	66,922	71,935	80,590	86,875	89,139	91,677
Royalties	27,626	27,422	37,958	44,295	39,822	36,607
Gross Profit	138,377	139,746	216,916	260,423	223,219	195,529
Operating Profit	115,092	117,712	195,706	237,837	199,790	171,119
Other income	39,879	20,268	50,680	66,275	39,723	42,596
Other charges	7,598	6,789	12,238	14,873	12,493	10,701
Finance cost	3,011	2,205	2,340	2,574	2,832	3,115
Profit before tax	144,362	128,986	231,808	286,665	224,188	199,900
Taxation	43,424	37,452	98,738	95,290	75,412	65,937
Profit after tax	100,938	91,534	133,070	191,375	148,776	133,963

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	100,741	95,746	92,685	89,822	87,368	85,424
Other LT assets	233,161	209,578	258,760	289,606	324,542	364,020
Non-Current Assets	333,902	305,324	351,445	379,428	411,910	449,444
Current assets	555,072	650,670	778,538	920,870	1,003,490	1,062,981
Total Assets	888,974	955,994	1,129,983	1,300,298	1,415,400	1,512,425
Non-Current liabilities	89,358	101,680	139,066	150,735	153,534	156,763
Current liabilities	89,052	84,670	115,525	121,504	128,041	135,183
Total Liabilities	178,410	186,350	254,590	272,239	281,574	291,946
Equity	710,564	769,644	875,393	1,028,060	1,133,826	1,220,479
Total Equity & liabilities	888,974	955,994	1,129,983	1,300,298	1,415,400	1,512,425

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	100,938	91,534	133,070	191,375	148,776	133,963
Non-cash Charges	27,628	27,670	27,849	27,508	28,182	28,898
Operating Cash flows	58,859	68,470	112,605	114,912	141,479	179,553
FCFF	41,877	42,332	55,478	72,848	98,964	133,748
Net borrowings	-	-	-	-	-	-
FCFE	39,771	40,768	54,135	71,129	97,084	131,661
Net change in cash	(43,557)	32,542	42,168	26,692	44,343	72,952
Closing cash	16,842	7,444	31,631	48,341	82,232	144,239

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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