

## Oil and Gas Development Company Limited

### Result Review

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

Pakistan Research

### 3QFY22 earnings settle in at PKR 10.03/share, up 79% YoY, DPS at PKR 1.0

- OGDC announced its 3QFY22 financial results today where the company reported NPAT of PKR 43.2bn (EPS PKR 10.03), up 79% YoY. This impressive growth in earnings is mainly due to 1) higher crude oil price (+66% YoY, averaging at USD 100/bbl), 2) PKR devaluation (-11%, averaging at PKR 177.4/USD) and, 3) 4.1x YoY increase in other income. This takes 9MFY22 earnings to PKR 26.05/share, up 69% YoY. Along with the result, OGDC announced an interim cash dividend of PKR 1.0/share.
- Net sales grew by 36% YoY to PKR 89.1bn during 3Q. Despite significant increase in oil price and PKR devaluation, revenue growth remained restricted owing to decline in oil and gas production.
- Exploration expenditure declined by 50% YoY to PKR 2.8bn, as against PKR 5.6bn in SPLY due to lower number of dry well. Just to recall, OGDC encountered a dry well in Lakhi Rud block during 3Q.
- Other income increased by 4.1x YoY to PKR 8.4bn owing to exchange gains booked during the quarter.
- On a sequential basis, OGDC's earnings grew by 22% QoQ owing to higher international crude oil prices and PKR devaluation.
- We have a 'BUY' stance on OGDC. Our Dec-22 price target (PT) of PKR 204/share provides an upside of 139% along with a dividend yield of 11%.

#### Key Data

PSX Ticker	OGDC
Target Price (PKR)	204
Current Price (PKR)	85
Upside/(Downside) (%)	+ 139%
Dividend Yield (%)	11%
Total Return (%)	+ 150%
12-month High (PKR)	104
12-month Low (PKR)	78
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	366,052
Year End	June

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Revenue	65,402	89,104	36%	179,562	240,267	34%
Operating Expenses	11,272	10,311	-9%	32,011	32,052	0%
Royalties	7,271	10,058	38%	20,174	27,092	34%
<b>Gross Profit</b>	<b>41,064</b>	<b>62,365</b>	<b>52%</b>	<b>107,799</b>	<b>161,066</b>	<b>49%</b>
Exploration Expenditure	5,587	2,800	-50%	10,809	9,693	-10%
Other Income	1,627	8,351	413%	5,562	29,587	432%
Financial Charges	534	592	11%	1,680	1,734	3%
<b>Profit Before Tax</b>	<b>34,823</b>	<b>64,779</b>	<b>86%</b>	<b>97,018</b>	<b>169,951</b>	<b>75%</b>
Taxation	10,703	21,618	102%	30,588	57,907	89%
<b>Profit After Tax</b>	<b>24,121</b>	<b>43,161</b>	<b>79%</b>	<b>66,430</b>	<b>112,044</b>	<b>69%</b>
EPS	5.61	10.03	79%	15.45	26.05	69%
DPS	1.80	1.00		5.40	4.75	

Source: Company Financials, Akseer Research

#### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	27.53	23.47	21.28	36.56	29.76	25.56
EPS Growth	50.2%	-14.7%	-9.3%	71.8%	-18.6%	-14.1%
DPS	11.00	6.75	6.90	9.00	11.00	10.00
PER	3.09	3.63	4.00	2.33	2.86	3.33
Dividend Yield	12.9%	7.9%	8.1%	10.6%	12.9%	11.7%
EV/EBITDA	1.51	2.11	2.08	1.22	1.06	0.94
P/B	0.6	0.5	0.5	0.4	0.4	0.4
ROE	19.8%	14.9%	12.4%	19.0%	13.8%	11.0%

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 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 204/share. Our price target provides an upside of 139% along with a dividend yield of 11%. 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	261,481	232,925	239,104	344,241	297,150	258,870
Field Expenditures	65,084	66,922	71,935	78,472	78,911	77,751
Royalties	29,336	27,626	27,422	39,475	34,071	29,677
<b>Gross Profit</b>	<b>167,062</b>	<b>138,377</b>	<b>139,746</b>	<b>226,293</b>	<b>184,168</b>	<b>151,442</b>
<b>Operating Profit</b>	<b>150,433</b>	<b>115,092</b>	<b>117,712</b>	<b>200,756</b>	<b>159,784</b>	<b>128,238</b>
Other income	37,153	39,879	20,268	37,176	30,994	33,908
Other charges	9,295	7,598	6,789	11,578	9,215	7,396
Finance cost	1,693	3,011	2,205	2,425	2,668	2,935
<b>Profit before tax</b>	<b>176,599</b>	<b>144,362</b>	<b>128,986</b>	<b>223,929</b>	<b>178,895</b>	<b>151,816</b>
Taxation	58,214	43,424	37,452	66,675	50,885	41,872
<b>Profit after tax</b>	<b>118,385</b>	<b>100,938</b>	<b>91,534</b>	<b>157,253</b>	<b>128,010</b>	<b>109,944</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	100,943	100,741	95,746	96,974	98,432	100,509
Other LT assets	184,650	233,161	209,578	206,139	219,702	238,109
Non-Current Assets	285,593	333,902	305,324	303,113	318,134	338,618
Current assets	509,465	555,072	650,670	786,531	<b>850,282</b>	<b>886,754</b>
<b>Total Assets</b>	<b>795,058</b>	<b>888,974</b>	<b>955,994</b>	<b>1,089,644</b>	<b>1,168,417</b>	<b>1,225,372</b>
Non-Current liabilities	69,902	89,358	101,680	111,850	104,496	88,558
Current liabilities	78,941	89,052	84,670	89,605	95,031	100,990
<b>Total Liabilities</b>	<b>148,843</b>	<b>178,410</b>	<b>186,350</b>	<b>201,455</b>	199,528	189,549
Equity	646,215	710,564	769,644	888,189	968,889	1,035,824
<b>Total Equity &amp; liabilities</b>	<b>795,058</b>	<b>888,974</b>	<b>955,994</b>	<b>1,089,644</b>	<b>1,168,417</b>	<b>1,225,372</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	157,253	128,010	109,944
Non-cash Charges	28,768	27,628	27,670	30,196	31,054	32,169
<b>Operating Cash flows</b>	<b>110,326</b>	<b>58,859</b>	<b>68,470</b>	<b>88,944</b>	<b>176,149</b>	<b>148,265</b>
<b>FCFF</b>	<b>73,764</b>	<b>41,877</b>	<b>42,332</b>	<b>55,741</b>	<b>144,889</b>	<b>114,021</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>72,629</b>	<b>39,771</b>	<b>40,768</b>	<b>54,038</b>	<b>142,980</b>	<b>111,896</b>
Net change in cash	52,073	(43,557)	32,542	27,185	88,190	58,562
<b>Closing cash</b>	<b>20,570</b>	<b>16,842</b>	<b>7,444</b>	<b>25,702</b>	<b>104,554</b>	<b>153,345</b>

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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Hold	Between -5% and +15%
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