

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

OGDC: 3QFY23 EPS expected to clock in at PKR 12.6, up 26% YoY

- OGDC's board meeting is scheduled on April 27, 2023 to consider 3QFY23 financial results. We expect the company to post an EPS of PKR 12.6, up 26% YoY compared to an EPS of PKR 10.0 in SPLY. This earnings growth is led by PKR devaluation against USD (-32% YoY). This will take 9MFY23 earnings to PKR 32.7/share, up 26% 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 112.5bn, up 26% YoY mainly on account of PKR devaluation, despite lower hydrocarbon production. OGDC's oil production is expected to decline during 3Q owing to lower flows from Nashpa, Adhi and TAL block. Similarly, gas production is also expected to contract due to decline from Uch and TAL block.
- Exploration and prospecting expenditure are likely to increase by 68% YoY to PKR 4.7bn as against PKR 2.8bn in SPLY. On the contrary, other income is likely to come at PKR ~15.1bn, up 81% YoY mainly on account of exchange gains and higher interest rates.
- Sequentially, net earnings are likely to increase by 46% QoQ. This is mainly due to 9% QoQ increase in oil price (in PKR terms) and higher other income owing to exchange gains and elevated interest rates.
- We have a 'BUY' stance on OGDC. Our Dec-23 price target (PT) of PKR 176/share provides an upside of 104% along with a dividend yield of 10%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	176
Current Price (PKR)	86
Upside/(Downside) (%)	+ 104%
Dividend Yield (%)	+10%
Total Return (%)	114%
12-month High (PKR)	110
12-month Low (PKR)	69
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	371,514
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Net Revenue	89,104	112,487	26%	240,267	315,723	31%
Operating Expenses	11,627	17,845	53%	32,694	57,136	75%
Royalties	10,058	12,697	26%	27,092	36,172	34%
Gross Profit	62,365	76,579	23%	161,066	207,655	29%
Exploration Expenditure	2,800	4,704	68%	9,693	11,353	17%
Other Income	8,351	15,137	81%	29,587	42,875	45%
Financial Charges	592	1,125	90%	1,734	3,409	97%
Profit Before Tax	64,779	81,629	26%	169,951	225,838	33%
Taxation	21,618	27,264	26%	57,907	85,100	47%
Profit After Tax	43,161	54,365	26%	112,044	140,738	26%
EPS	10.0	12.6	26%	26.1	32.7	26%
DPS	1.0	2.0		4.8	6.0	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	46.4	34.8	31.8
EPS Growth	-14.7%	-9.3%	45.4%	50.0%	-25.0%	-8.5%
DPS	6.8	6.9	7.3	9.0	10.0	11.0
PER	3.7	4.1	2.8	1.9	2.5	2.7
Dividend Yield	7.8%	8.0%	8.4%	10.4%	11.6%	12.7%
EV/EBITDA	2.2	2.1	1.3	1.0	1.0	0.8
P/B	0.5	0.5	0.4	0.4	0.3	0.3
ROE	14.9%	12.4%	16.2%	20.9%	13.7%	11.5%

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 176/share. Our price target provides an upside of 104% 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	423,851	366,344	342,894
Field Expenditures	66,922	71,935	80,590	101,086	99,946	102,891
Royalties	27,626	27,422	37,958	47,950	41,430	38,773
Gross Profit	138,377	139,746	216,916	274,816	224,968	201,230
Operating Profit	115,092	117,712	195,706	250,745	201,004	176,236
Other income	39,879	20,268	50,680	67,025	39,907	42,561
Other charges	7,598	6,789	12,238	15,680	12,569	11,020
Finance cost	3,011	2,205	2,340	4,443	4,887	4,887
Profit before tax	144,362	128,986	231,808	297,648	223,455	202,889
Taxation	43,424	37,452	98,738	98,100	73,837	65,998
Profit after tax	100,938	91,534	133,070	199,547	149,618	136,891

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	288,913	323,613	362,847
Non-Current Assets	333,902	305,324	351,445	378,735	410,981	448,271
Current assets	555,072	650,670	778,538	960,635	1,039,435	1,104,700
Total Assets	888,974	955,994	1,129,983	1,339,370	1,450,416	1,552,972
Non-Current liabilities	89,358	101,680	139,066	179,767	175,611	179,672
Current liabilities	89,052	84,670	115,525	123,372	131,964	140,879
Total Liabilities	178,410	186,350	254,590	303,139	307,575	320,551
Equity	710,564	769,644	875,393	1,036,232	1,142,841	1,232,422
Total Equity & liabilities	888,974	955,994	1,129,983	1,339,370	1,450,416	1,552,972

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	100,938	91,534	133,070	199,547	149,618	136,891
Non-cash Charges	27,628	27,670	27,849	27,508	28,182	28,898
Operating Cash flows	58,859	68,470	112,605	102,689	159,210	172,343
FCFF	41,877	42,332	55,478	54,502	120,258	127,760
Net borrowings	-	-	-	-	-	-
FCFE	39,771	40,768	54,135	51,524	116,986	124,463
Net change in cash	(43,557)	32,542	42,168	17,030	64,365	67,758
Closing cash	16,842	7,444	31,631	38,679	92,592	149,406

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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