Company Update | Pakistan Research

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OGDC: The Leader's Revival

Oil and Gas Development Company Limited

PSX: OGDC | Bloomberg: OGDC PA | Reuters: OGDC.PSX

We revise our stance to "Buy" on Oil and Gas Development Company (OGDC) with our Dec-25 price target (PT) of PKR 335/sh, which projects a capital upside of 53% along with a dividend yield of 6.4%. The stock is currently trading at a discounted P/B of 0.7x along with a FY26 P/E of 5.0x against its historical 10-year average of 1.5x and 5.9x, respectively.

- **Improved Cashflow amid Structural Reforms:** Under the IMF agreement, the Government of Pakistan implemented multiple price hikes to eradicate the longstanding issue of circular debt. Consequently, the gas system went from an OGRA-estimated shortfall of PKR 171.2bn in FY24 to a projected surplus of PKR 78.9bn in FY25.
- **Reviving Production Flows:** OGDC is focusing on production optimization, reserve replenishment, and high-potential projects like tight gas exploration and Abu Dhabi Offshore Block 5. With a favorable gas sale framework and improved cash position, these initiatives are set to drive long-term growth, enhance margins, and support reserve recovery.
- **Reko Diq – Stake Sale Uncertainty Looms:** Reko Diq's vast copper and gold reserves could boost OGDC and Pakistan's prospects. However, rumors about a discounted stake sale have raised concerns about SOEs retaining the project. If OGDC sells 6.67% to Manara Minerals, we expect a one-off earnings impact of PKR 5.1/sh and a valuation impact of PKR 24/sh. Our base case assumes the project's retention, yielding a valuation impact of PKR 45/sh.
- **Unlocking Value with Cash Reserves:** OGDC currently carries PKR 608bn (PKR 141/sh) receivables as of Sep-24. Given increased probability of surplus cash in the system, we believe the payments for outstanding receivables to the gas chain will continue. Assuming the cash realizes in equal installments over 10 years, the discounted value is estimated at PKR 61/sh.

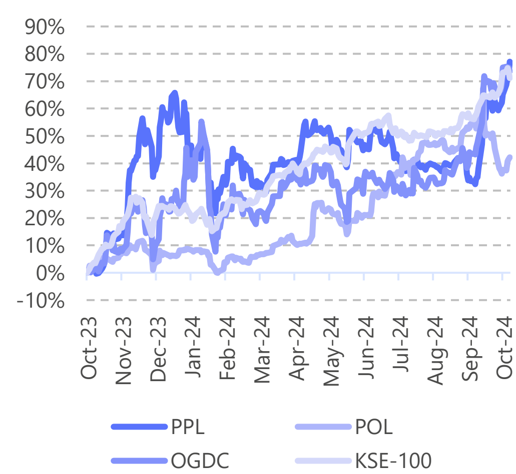
Summary	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
EPS	31.1	52.2	48.6	35.5	43.8	45.6
EPS YoY	46.2%	67.9%	-7.0%	-27.0%	23.4%	4.2%
DPS	7.3	8.6	10.1	14.0	18.0	18.0
BVPS	203.5	251.8	290.8	312.2	338.0	365.7
PER	7.0	4.2	4.5	6.2	5.0	4.8
Div. Yield	3.3%	3.9%	4.6%	6.4%	8.2%	8.2%
EV/EBITDA	3.8	3.0	2.3	2.4	1.6	1.2
P/B	1.1	0.9	0.8	0.7	0.6	0.6
ROE	16.3%	22.9%	17.9%	11.8%	13.5%	13.0%

Source: Company Accounts, Akseer Research

Key Data	
PSX Ticker	OGDC
Target Price (PKR)	335
Current Price (PKR)	218
Upside/(Downside) (%)	53%
Dividend Yield (%)	6.4%
Total Return (%)	60%
12-month High (PKR)	255
12-month Low (PKR)	105
Outstanding Shares (mn)	4,301
Market Cap (PKR mn)	918,507

Source: PSX, Akseer Research

Relative Price Performance



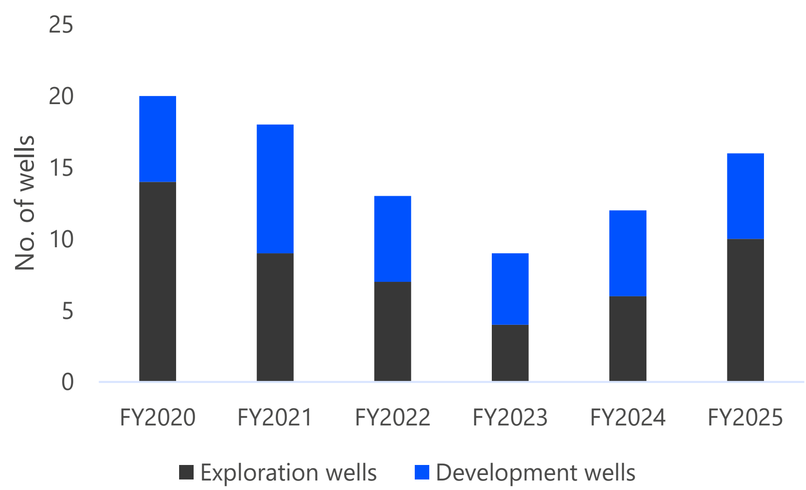
Source: PSX, Akseer Research

Improved cashflows amid structural reforms

Timely tariff adjustments in Nov-23 and Feb-24 slowed down the accumulation of circular debt in the system from PKR 21.8bn/month in 1HFY24 to PKR 0.5bn/month in 2HFY24. 1QFY25 has bolstered our faith in the potential of a circular debt resolution, with a staggering attrition rate (surplus) of PKR 9.2bn/month. This has resulted in a 4.25% QoQ decline in trade debts for OGDC during 1QFY25.

The reforms to the gas system aided OGDC's gas sale recovery to climb to 149% during 1QFY25 against a staggering 3-year average of 52%. With the significant recovery in gas sales, OGDC can now use its financial flexibility to arrest its production decline (5-year CAGR of -4.3% YoY for natural gas and -2% YoY for crude oil) via field development programs.

Drilling Activities - OGDC



Source: PPIS, Akseer Research

While improved cash flows may support a 50% dividend payout ratio, the financial obligations related to the Abu Dhabi Offshore Block 5 project could restrict the company's ability to achieve this target in the short term. Therefore, our base case assumes a more conservative 40% payout ratio.

Third-party Gas Sale - A Way for Sustainable Growth

Recent developments on the third-party gas sale framework are poised to allow E&P companies to sell a maximum of 100mmcfd of gas from incremental production to parties possessing an OGRA license. The enactment of said framework under the Petroleum Policy 2012 will alleviate the transmission pipeline risk and incentivize increased production flows through a premium chargeable on zonal pricing.

Reko Diq - Stake Sale Uncertainty Looms

At a time where the 10-year transition to electric vehicles plan is the buzz and current copper resources are only expected to meet 80% of the global copper demand by 2035, Reko Diq boasts massive reserves of copper and gold, 14.1mn tons and ~17.5mn oz, respectively.

Although the project shows promise in the long term, rumors regarding a discounted stake sell off have surfaced. The rumored transaction involves payments being made in two installments of USD 330mn and USD 210mn for a transfer of 10% (Phase 1) and 5% (Phase 2) stakes, respectively. However, an official press release is still awaited.

The ambiguity surrounding the proportion of stake sold-off presents the following potential scenarios:

1. **Project Retention (Base Case):** Barrick's timeline estimates Phase 1 to operationalize by 2028 with an annual output of 260kt and 300koz for copper and gold, respectively. As per Barrick's capital expenditure estimations, OGDC's cash calls for Phase 1 capital outlay are anticipated between PKR 13/sh and PKR 14/sh for FY25 to FY27. Our base case (project's retention) assumes a conservative price CAGR of 4% for both gold and copper which translates into an overall valuation impact of PKR 45/sh.
2. **OGDC & PPL Exit (6.67%, 8.33% respectively):** For OGDC, the first phase of the transaction translates into a one-off bump in earnings of PKR 5.1/sh. We expect PPL to liquidate its stake owing to its relatively stressed liquidity position.
3. **Equal Footing Exit (5% each):** This scenario leaves both E&Ps with a less burdensome stake which frees up enough funds to undertake aggressive exploration while enjoying returns from Reko Diq.

Reko Diq Scenarios	PKR/sh
Project Retention – Base Case	
Core – OGDC	289
Reko Diq	45
Target Price (TP)	**335**
OGDC Exit (6.67%)	
Core – OGDC	289
Reko Diq	24
Target Price (TP)	**313**
Equal Footing Exit (5% each)	
Core – OGDC	289
Reko Diq	29
Target Price (TP)	**318**

Source: Company Accounts, Akseer Research

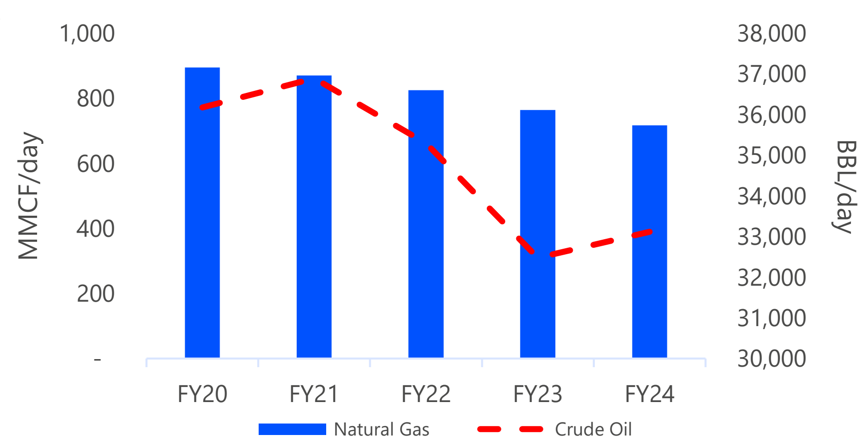
The 15% stake sell-off to Manara Minerals (Saudia Arabia), may force OGDC to give up a sizeable portion of the lucrative asset due to the government's foreign exchange needs. In that case, OGDC's exit from the venture will is likely to alleviate the entity's strained liquidity position, making room for a relatively aggressive exploration campaign as announced for FY25.

It is important to note that an early exit from the venture will lead to a downward revision in our target price for OGDC.

Reviving Production Flows

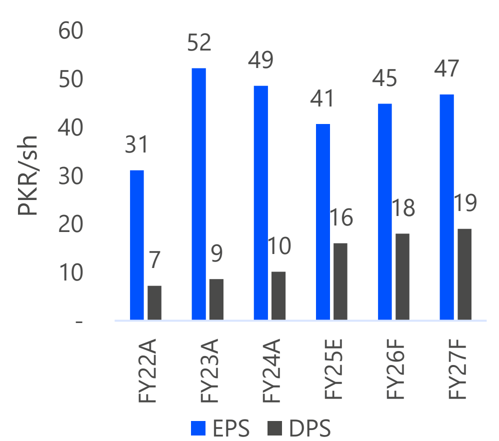
The energy sector faces numerous interconnected challenges that require comprehensive, yet phased, reforms. Currently, the gas transmission pipeline is at risk of collapse due to reduced offtakes from power producers. With the impending phase-out of captive offtake, OGDC might experience an extended period of curtailed production, which will ultimately impact its earnings in the short term. We anticipate that the deferment of LNG cargoes and the return to normal operations will mitigate this risk by FY26, following the approval of the third-party gas sale framework.

Hydrocarbon Production



Source: PPIS, Akseer Research

Earnings and Payout Outlook



Source: Company Accounts, Akseer Research

While a relatively weak exploratory campaign during FY23 and FY24 contributed to a low reserve-replacement ratio (RRR) of 59% for FY24, we expect the improved cash position to reverse this trend with the hope of replenishing the company's reserves through high-risk/high-reward spud-ins.

Abu Dhabi's Offshore Block 5: The company has submitted the Field Development Plan for three fields (2 of which were drilled to verify hydrocarbon volumes and reserve estimates) to ADNOC (operator) and expects the approval for the third exploratory well by Dec-24. OGDC's cash calls for this campaign are expected to total USD 304.7mn over the next 5 years. Any developments on the commercial operations of this block will act as a further positive trigger to the company's earnings and valuation.

Production Enhancement Campaigns: OGDC is focused on fast-tracking its ongoing development projects to maintain production plateaus and optimize future hydrocarbon recovery. Key initiatives include installing compression units at Dakhni, KPD-TAY, and Uch fields, alongside field development at Jhal Magsi with expected daily increments of 2,238 barrels of oil and 140mmcf of gas.

Tight Gas Exploration: To assess shale gas potential, OGDC plans to drill the KUC-1 (horizontal) well through a third-party contract, with the bidding process underway. The company is also advancing its tight gas exploration program by issuing a tender for a third-party study to assess tight gas potential in 80 wells. Additionally, the Dhamach-1, Wassan-1, and Bewato-1/Urs-1 wells have been shortlisted for re-entry and frac-jobs to accelerate tight gas monetization. Tight gas offers a 40% premium on the zonal pricing, which is anticipated to support the company's margins.

Moreover, any positive developments on the third-party gas sale framework are expected to ramp up production from fields that were previously economically unfeasible.

Unlocking Value with Cash Reserves Realization

OGDC currently holds PKR 608bn in outstanding receivables, equivalent to PKR 141 per share as of Sep-24, representing its strong financial position. With recent reforms improving the gas sector and enhancing circular debt resolution, surplus cash is likely to enter the system, facilitating the continued payment of these receivables. Assuming a 10-year payment cycle, the discounted value of these receivables is estimated at PKR 61 per share. As these receivables are realized, OGDC will likely benefit from improved liquidity, enabling reinvestment in growth initiatives and potential dividend increases. While the nominal receivables value of PKR 608bn is substantial, the discounted value of PKR 61 per share highlights a clear pathway to unlocking value over time.

Company Description

Oil and Gas Development Company Limited explores, 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, along with rig maintenance, construction and engineering support, geological, and geophysical services.

Valuation Basis

Our PT for OGDC has been computed using the reserve-based free cash flow to equity (FCFE) method. We have used a risk-free rate of 12%, a beta of 1.2, and a market risk premium of 6% to arrive at a cost of equity of 19%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-25 PT of PKR 335/share, which results in an upside of 53% alongside a dividend yield of 6.4%. Our investment case on OGDC is based on (1) recovery of circular debt stock and (2) improvement in production flows.

Risks

Key downside risks to our investment thesis include (1) a decrease in oil prices, (2) delay in development of discoveries, (3) low success ratio of drilling activities, (4) application of expected credit losses for receivables due from GoP, (5) a lower-than-estimated life of main reserves, (6) continued curtailment due to RLNG line pressure, and (7) further delays in the resolution of circular debt.

Sum of Parts Valuation	**PKR/sh**
PV of Reserves	219
Cash – 1QFY25	32
Short Term Investments - 1QFY25	38
Projects	
Reko Diq	45
Target Price	335

Source: Company Accounts, Akseer Research

Income Statement (PKR mn)	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
Net sales	335,464	413,594	463,698	400,864	470,594	482,470
Field expenditures	80,590	95,473	126,106	117,911	123,204	127,771
Royalties	37,958	48,394	54,279	46,920	55,082	56,469
Gross profit	**216,916**	**269,727**	**283,313**	**236,033**	**292,308**	**298,230**
Other income	50,680	165,235	54,530	83,512	95,960	106,598
Other charges	12,238	20,199	15,462	12,131	15,090	15,291
Finance cost	2,340	4,715	7,143	7,429	7,579	6,823
Profit before tax	**232,521**	**383,773**	**293,787**	**269,398**	**328,850**	**343,441**
Taxation	98,738	159,155	84,811	116,748	140,518	147,161
Profit after tax	**133,784**	**224,618**	**208,976**	**152,650**	**188,332**	**196,280**

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
PPE	92,685	85,816	86,838	87,357	87,357	86,822
Other LT assets	258,760	379,132	456,927	472,603	488,089	505,249
Non-current assets	351,445	464,947	543,765	559,959	575,446	592,071
Current assets	778,538	959,118	1,060,489	1,152,407	1,273,589	1,396,889
Total Assets	**1,129,983**	**1,424,065**	**1,604,254**	**1,712,366**	**1,849,035**	**1,988,960**
Non-current liabilities	139,066	160,964	180,856	185,119	198,750	207,844
Current liabilities	115,525	180,203	172,902	184,314	196,436	208,403
Total Liabilities	**254,590**	**341,167**	**353,758**	**369,433**	**395,186**	**416,247**
Equity	875,393	1,082,898	1,250,496	1,342,934	1,453,849	1,572,713
Total Equity & Liabilities	**1,129,983**	**1,424,065**	**1,604,254**	**1,712,366**	**1,849,035**	**1,988,960**

Source: Company Accounts, Akseer Research

Cashflows (PKR mn)	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
Net income	133,784	224,618	208,976	152,650	188,332	196,280
Non-cash charges	27,849	34,426	34,739	36,700	37,805	38,922
Operating cash flows	113,319	156,064	182,205	195,149	232,453	242,536
FCFF	**53,691**	**121,539**	**165,921**	**154,318**	**188,958**	**198,909**
Net borrowings	-	-	-	-	-	-
FCFE	**52,344**	**118,779**	**160,840**	**150,108**	**184,618**	**195,010**
Net change in cash	42,168	55,702	19,970	93,453	113,867	121,540
Closing cash	**31,631**	**25,766**	**141,030**	**227,911**	**337,382**	**454,407**

Source: Company Accounts, Akseer Research

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Valuation Methodology

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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