

Oil and Gas Development Company Limited

Key Takeaways

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

Pakistan Research

1HFY22 Conference Call Key Takeaways

- OGDC conducted its conference call today following the 1HFY22 financial results announcement, wherein the management discussed its half yearly performance and status of ongoing projects. Main points discussed during the call are presented below.
- Answering to our question regarding gas sector circular debt, OGDC's management apprised that different options are being discussed with the government to resolve this issue and the management is optimistic about it. Regarding the Weighted Average Cost of Gas (WACOG) bill, which has been approved in the senate of Pakistan, the company expects positive impact on its cash flows in terms of better recovery from customers; however, the timeline of the impact is dependent on the implementation of the said WACOG mechanism. Its impact could be visible in 6 months period from the date of implementation. Just to recall, OGDC's overdue receivables have reached PKR 352bn as at Dec 31, 2021, up from PKR 304bn as at 30 June, 2021 depicting an increase of PKR 48bn in first 6 months of current fiscal year.
- Regarding Pakistan International Oil Limited (PIOL), OGDC has invested USD 25mn so far. Seismic acquisition has been completed for the offshore block 5 in Abu Dhabi and interpretation of the acquired data is in process. The management informed that further investment will be done once the drilling of the exploratory well starts. Just to recall, OGDC in 2QFY22 charged PKR 2.4bn cost related to loss from associate. This is 3D seismic cost pertaining to Offshore block 5 and its non-recurring.
- The management, while providing the timeline for the commencement of production from Wali discovery, stated that if the negotiation with SNGP is successful in laying a 60km pipeline, the production can commence in a year's time; otherwise it would take 2 to 3 years for the production to come online. Further the management informed that the CO2 content in Wali field's gas is 4.2% as against standard of 3%. In our view, OGDC will probably have to invest in the infrastructure to reduce CO2 content to an acceptable level. Wali discovery in 3 formations cumulatively yielded 2,850bpd of oil and 37mmcf of gas in initial testing. 2 more wells are expected to be drilled in the next 2 to 3 months to reliably assess the reserve size of this discovery.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	185
Current Price (PKR)	89
Upside/(Downside) (%)	+ 107%
Dividend Yield (%)	12%
Total Return (%)	+ 120%
12-month High (PKR)	111
12-month Low (PKR)	79
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	383,858
Year End	June

Source: Company Accounts, 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 185/share. Our price target provides an upside of 107% along with a dividend yield of 12%. 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	299,514	262,149	236,212
Field Expenditures	65,084	66,922	71,935	77,010	77,417	75,882
Royalties	29,336	27,626	27,422	34,351	30,060	27,078
Gross Profit	167,062	138,377	139,746	188,153	154,672	133,252
Operating Profit	150,433	115,092	117,712	163,238	130,883	110,764
Other income	37,153	39,879	20,268	37,002	29,420	31,578
Other charges	9,295	7,598	6,789	9,414	7,548	6,388
Finance cost	1,693	3,011	2,205	2,425	2,668	2,935
Profit before tax	176,599	144,362	128,986	188,401	150,087	133,019
Taxation	58,214	43,424	37,452	53,274	40,547	35,380
Profit after tax	118,385	100,938	91,534	135,127	109,540	97,639

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	206,427	220,233	238,893
Non-Current Assets	285,593	333,902	305,324	303,402	318,665	339,402
Current assets	509,465	555,072	650,670	752,910	806,700	834,810
Total Assets	795,058	888,974	955,994	1,056,311	1,125,364	1,174,212
Non-Current liabilities	69,902	89,358	101,680	109,246	102,040	85,998
Current liabilities	78,941	89,052	84,670	89,605	95,031	100,990
Total Liabilities	148,843	178,410	186,350	198,851	197,071	186,988
Equity	646,215	710,564	769,644	857,461	928,293	987,224
Total Equity & liabilities	795,058	888,974	955,994	1,056,311	1,125,364	1,174,212

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	135,127	109,540	97,639
Non-cash Charges	28,768	27,628	27,670	30,196	31,054	32,169
Operating Cash flows	110,326	58,859	68,470	93,365	131,462	124,668
FCFF	73,764	41,877	42,332	60,498	99,965	90,223
Net borrowings	-	-	-	-	-	-
FCFE	72,629	39,771	40,768	58,759	98,018	88,069
Net change in cash	52,073	(43,557)	32,542	22,715	51,863	39,013
Closing cash	20,570	16,842	7,444	21,233	63,757	92,998

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.

Ratings Criteria

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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