

Oil and Gas Development Company Limited

Key Takeaways

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

Pakistan Research

OGDC: 1HFY23 Conference Call Key Takeaways

- OGDC conducted its conference call today following the 1HFY23 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.
- Just to recall, OGDC reported 1HFY23 PAT of PKR 95.0bn (EPS of PKR 22.1), up 38% YoY. This growth in profitability mainly emanates from higher crude oil price and PKR devaluation against USD. OGDC's oil and gas production during 1HFY23 declined by 10% YoY and 7% YoY, respectively.
- OGDC's management apprised that recent development of gas price hike is positive for the company. Answering to a question, the management clarified that increase in consumer gas prices will not have impact on the company's profitability; however, they are anticipating 10-15% improvement in monthly collection/recovery from utility companies. Thus, pileup of overdue receivables will slow down going forward. Just to recall, OGDC's overdue receivables have reached PKR 455bn as at Dec 31, 2022, up from PKR 393bn as at June 30, 2022, depicting an increase of PKR ~62bn in first 6 months of current fiscal year. As per our calculation, OGDC, on average, recovered 70% of sales amount during 1HFY23.
- Regarding the possibility of improvement in dividend payout, management informed that the board will decide this after considering the ongoing projects/ventures and related commitments.
- On production front, company will develop early production facility at Wali-1 discovery. Early testing is likely to be completed during FY23 and the facility is expected to produce 10MMcfd of gas and 1,000bpd of oil.
- The management further informed that, production from Mamikhel South in TAL block, is expected to commence in last quarter of FY23.
- Moreover, the company is planning to drill more exploratory and development wells during the next few months. OGDC planned to drill 7 exploratory and 12 development/appraisal wells during FY23.

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

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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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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.

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%

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