

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

OGDC: 1QFY22 EPS expected at PKR 7.1, up 29% YoY; DPS PKR 2.5

- OGDC is scheduled to announce its 1QFY22 results on October 28, 2021. We expect the company to post an EPS of PKR 7.1, compared to an EPS of PKR 5.45 in SPLY, depicting a growth of 29% YoY. Along with the result, we also expect the company to announce an interim dividend of PKR 2.5/share.
- The company's topline is likely to increase 24% YoY to PKR 73.5bn compared to PKR 59.5bn in corresponding period last year. Lower hydrocarbon production during the quarter is expected to restrict the topline growth despite 68% YoY (in PKR terms) surge in oil prices.
- OGDC's gas production witnessed decline of 6% YoY during the quarter where the major reduction came from Qadirpur, KPD and Tal block. Similarly, oil production witnessed a 3% YoY decline due to lower flows from Nashpa (ATA in August), Adhi, KPD and Tal block.
- Exploration expenditure is expected to increase by 61% YoY to PKR 4.7bn, as against PKR 2.9bn in the SPLY. On the contrary, other income is likely to come at PKR 5.2bn, up 59% YoY mainly on account of exchange gains booked during 1QFY22.
- On sequential basis, net earnings are expected to increase by 21% QoQ, primarily due to higher international crude oil prices and PKR devaluation.
- Our Jun-22 price target (PT) of PKR 181/share provides an upside of 117% along with a dividend yield of 12%.
- We have a "BUY" stance on OGDC which is trading at FY22 PE and PBV of 2.8x and 0.4x, respectively.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	181
Current Price (PKR)	84
Upside/(Downside) (%)	+ 117%
Dividend Yield (%)	12%
Total Return (%)	+ 128%
12-month High (PKR)	118
12-month Low (PKR)	80
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	360,117
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY21	1QFY22E	YoY	4QFY21	QoQ
Net Revenue	59,528	73,517	24%	59,541	23%
Operating Expenses	10,368	11,207	8%	10,496	7%
Royalties	6,727	8,308	24%	7,249	15%
Gross Profit	35,298	46,163	31%	31,947	44%
Exploration Expenditure	2,957	4,772	61%	6,557	-27%
Other Income	3,294	5,246	59%	8,417	-38%
Financial Charges	564	621	10%	524	18%
Profit Before Tax	34,020	43,968	29%	31,969	38%
Taxation	10,593	13,630	29%	6,864	99%
Profit After Tax	23,427	30,338	29%	25,105	21%
EPS	5.45	7.05	29%	5.84	21%
DPS	2.00	2.50		1.50	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	27.53	23.47	21.28	29.38	26.12	23.08
EPS Growth	50.2%	-14.7%	-9.3%	38.1%	-11.1%	-11.6%
DPS	11.00	6.75	6.90	10.00	9.00	9.00
PER	3.04	3.57	3.93	2.85	3.21	3.63
Dividend Yield	13.1%	8.1%	8.2%	11.9%	10.7%	10.7%
EV/EBITDA	1.48	2.07	2.04	1.49	1.50	1.46
P/B	0.6	0.5	0.5	0.4	0.4	0.4
ROE	19.8%	14.9%	12.4%	15.6%	12.6%	10.4%

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 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 181/share. Our price target provides an upside of 117% 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	299,107	265,398	237,364
Field Expenditures	65,084	66,922	71,935	76,959	77,521	77,343
Royalties	29,336	27,626	27,422	34,307	30,435	27,212
Gross Profit	167,062	138,377	139,746	187,842	157,442	132,808
Operating Profit	150,433	115,092	117,712	162,949	133,339	109,105
Other income	37,153	39,879	20,268	27,588	31,073	34,536
Other charges	9,295	7,598	6,789	9,398	7,690	6,292
Finance cost	1,693	3,011	2,205	2,425	2,668	2,935
Profit before tax	176,599	144,362	128,986	178,714	154,054	134,414
Taxation	58,214	43,424	37,452	52,338	41,723	35,130
Profit after tax	118,385	100,938	91,534	126,376	112,331	99,284

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	206,437	219,597	236,887
Non-Current Assets	285,593	333,902	305,324	303,412	318,029	337,396
Current assets	509,465	555,072	650,670	748,358	804,613	836,946
Total Assets	795,058	888,974	955,994	1,051,770	1,122,642	1,174,341
Non-Current liabilities	69,902	89,358	101,680	109,155	100,978	86,142
Current liabilities	78,941	89,052	84,670	89,605	95,031	100,990
Total Liabilities	148,843	178,410	186,350	198,760	196,009	187,133
Equity	646,215	710,564	769,644	853,011	926,633	987,209
Total Equity & liabilities	795,058	888,974	955,994	1,051,770	1,122,642	1,174,342

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	126,376	112,331	99,284
Non-cash Charges	28,768	27,628	27,670	30,196	31,804	33,525
Operating Cash flows	110,326	58,859	68,470	82,586	127,491	132,313
FCFF	73,764	41,877	42,332	52,276	96,236	97,758
Net borrowings	-	-	-	-	-	-
FCFE	72,629	39,771	40,768	50,561	94,290	95,590
Net change in cash	52,073	(43,557)	32,542	16,228	47,788	46,671
Closing cash	20,570	16,842	7,444	14,745	53,194	90,094

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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