

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

EPS expected at PKR 12.2, up 56% YoY, DPS at PKR 2.0

- OGDC's board meeting is scheduled on October 25, 2022 to consider 1QFY23 financial results. We expect the company to post an EPS of PKR 12.2, compared to an EPS of PKR 7.8 in SPLY, depicting a growth of 56% YoY. This growth in earnings is primarily due to higher crude oil price (+43% YoY) and PKR devaluation (-27% 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 108.6bn, up 52% YoY mainly on account of higher oil price and PKR devaluation. However, this expected revenue growth overshadows the fact that company's oil and gas production has declined by 11% YoY and 5% YoY, respectively during the quarter.
- Exploration and prospecting expenditure are likely to increase by 81% YoY to PKR 4.1bn as against PKR 2.3bn in SPLY mainly due to increased activity. On the contrary, other income is likely to come at PKR 12.9bn, up 19% YoY mainly on account of exchange gains.
- On sequential basis, net earnings are expected to increase by 1.4x QoQ, primarily due to low base effect as OGDC booked higher tax expense in preceding quarter owing to super tax. Moreover, 3% QoQ expected increase in oil production and 6% QoQ higher oil price (In PKR terms) will also support the earnings growth.
- We have a 'BUY' stance on OGDC. Our Jun-23 price target (PT) of PKR 187/share provides an upside of 159% along with a dividend yield of 11%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	187
Current Price (PKR)	72
Upside/(Downside) (%)	+ 159%
Dividend Yield (%)	11%
Total Return (%)	+ 170%
12-month High (PKR)	96
12-month Low (PKR)	71
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	310,914
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Net Revenue	71,531	108,582	52%
Operating Expenses	10,517	16,335	55%
Royalties	8,242	12,511	52%
Gross Profit	46,310	73,046	58%
Exploration Expenditure	2,283	4,127	81%
Other Income	10,878	12,942	19%
Financial Charges	563	619	10%
Profit Before Tax	52,270	78,774	51%
Taxation	18,640	26,311	41%
Profit After Tax	33,629	52,464	56%
EPS	7.8	12.2	56%
DPS	1.8	2.0	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	41.5	30.0	26.8
EPS Growth	-14.7%	-9.3%	45.4%	34.2%	-27.8%	-10.8%
DPS	6.8	6.9	7.3	8.0	9.0	9.0
PER	3.1	3.4	2.3	1.7	2.4	2.7
Dividend Yield	9.3%	9.5%	10.0%	11.1%	12.4%	12.4%
EV/EBITDA	1.7	1.7	1.0	0.9	1.1	1.0
P/B	0.4	0.4	0.4	0.3	0.3	0.3
ROE	14.9%	12.4%	16.2%	18.8%	12.1%	10.0%

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 187/share. Our price target provides an upside of 159% along with a dividend yield of 11%. 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	375,237	314,281	285,812
Field Expenditures	66,922	71,935	80,590	84,154	82,243	82,882
Royalties	27,626	27,422	37,958	42,447	35,545	32,321
Gross Profit	138,377	139,746	216,916	248,636	196,493	170,609
Operating Profit	115,092	117,712	195,706	226,875	175,162	148,891
Other income	39,879	20,268	50,680	58,370	33,026	35,425
Other charges	7,598	6,789	12,238	14,187	10,953	9,311
Finance cost	3,011	2,205	2,340	2,574	2,832	3,115
Profit before tax	144,362	128,986	231,808	268,484	194,403	171,890
Taxation	43,424	37,452	98,738	89,935	65,407	56,799
Profit after tax	100,938	91,534	133,070	178,549	128,997	115,091

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	274,273	310,136	350,736
Non-Current Assets	333,902	305,324	351,445	364,095	397,504	436,160
Current assets	555,072	650,670	778,538	895,916	952,123	993,698
Total Assets	888,974	955,994	1,129,983	1,260,012	1,349,626	1,429,858
Non-Current liabilities	89,358	101,680	139,066	118,974	111,763	108,470
Current liabilities	89,052	84,670	115,525	121,504	128,041	135,183
Total Liabilities	178,410	186,350	254,590	240,478	239,804	243,653
Equity	710,564	769,644	875,393	1,019,534	1,109,823	1,186,205
Total Equity & liabilities	888,974	955,994	1,129,983	1,260,012	1,349,626	1,429,858

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	100,938	91,534	133,070	178,549	128,997	115,091
Non-cash Charges	27,628	27,670	27,849	27,508	28,182	28,898
Operating Cash flows	58,859	68,470	112,605	71,737	115,871	156,373
FCFF	41,877	42,332	55,478	38,116	75,214	111,258
Net borrowings	-	-	-	-	-	-
FCFE	39,771	40,768	54,135	36,404	73,335	109,173
Net change in cash	(43,557)	32,542	42,168	3,150	22,110	57,252
Closing cash	16,842	7,444	31,631	24,799	36,457	82,764

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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