

## Oil and Gas Development Company Limited

### Result Review

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

Pakistan Research

## OGDC: 2QFY23 EPS clocks in at PKR 9.7, up 18% YoY, DPS at PKR 2.25

- OGDC announced its 2QFY23 financial results today, wherein the company reported an EPS of PKR 9.7, up 18% YoY compared to an EPS of PKR 8.2 in SPLY. This earnings growth is primarily due to higher crude oil price (+10% YoY) and PKR devaluation against USD (-22% YoY). This takes 1HFY23 earnings to PKR 22.1/share, up 38% YoY. Along with the result, OGDC announced an interim cash dividend of PKR 2.25/share taking the cumulative payout to 4.0/share in 1HFY23.
- Net sales grew by 22% YoY and settled at PKR 97.2bn in 2Q. This growth mainly comes from higher oil price and PKR devaluation, despite lower hydrocarbon production.
- Exploration and prospecting expenditure went up by 11% YoY to PKR 5.1bn as against PKR 4.6bn in SPLY, mainly due to higher cost of dry wells booked during the period. Other income, on the other hand, declined by 11% YoY to PKR 9.2bn during 2Q, further restricting the bottomline growth.
- Sequentially, net earnings declined by 22% QoQ, primarily due to 17% QoQ lower oil price (in PKR terms) and decline in other income.
- We have a 'BUY' stance on OGDC. Our Dec-23 price target (PT) of PKR 170/share provides an upside of 79% along with a dividend yield of 10%.

#### 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

#### Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Revenue	79,633	97,224	22%	151,163	203,236	34%
Operating Expenses	10,549	21,116	100%	21,066	39,291	87%
Royalties	8,792	11,298	28%	17,034	23,474	38%
<b>Gross Profit</b>	<b>52,391</b>	<b>64,509</b>	<b>23%</b>	<b>98,701</b>	<b>139,715</b>	<b>42%</b>
Exploration Expenditure	4,610	5,104	11%	6,893	6,649	-4%
Other Income	10,359	9,234	-11%	21,237	27,738	31%
Financial Charges	578	1,466	154%	1,141	2,284	100%
<b>Profit Before Tax</b>	<b>52,902</b>	<b>64,641</b>	<b>22%</b>	<b>105,172</b>	<b>152,848</b>	<b>45%</b>
Taxation	17,649	22,931	30%	36,289	57,836	59%
<b>Profit After Tax</b>	<b>35,253</b>	<b>41,709</b>	<b>18%</b>	<b>68,883</b>	<b>95,012</b>	<b>38%</b>
EPS	8.2	9.7	18%	16.0	22.1	38%
DPS	2.0	2.3		3.8	4.0	

Source: Company Financials, Akseer Research

#### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	44.5	34.6	31.1
EPS Growth	-14.7%	-9.3%	45.4%	43.8%	-22.3%	-10.0%
DPS	6.8	6.9	7.3	9.0	10.0	11.0
PER	3.9	4.3	2.9	2.1	2.6	2.9
Dividend Yield	7.4%	7.6%	7.9%	9.9%	11.0%	12.1%
EV/EBITDA	2.3	2.3	1.4	1.1	1.1	1.0
P/B	0.6	0.5	0.4	0.4	0.3	0.3
ROE	14.9%	12.4%	16.2%	20.1%	13.8%	11.4%

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 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
<b>Gross Profit</b>	<b>138,377</b>	<b>139,746</b>	<b>216,916</b>	<b>260,423</b>	<b>223,219</b>	<b>195,529</b>
<b>Operating Profit</b>	<b>115,092</b>	<b>117,712</b>	<b>195,706</b>	<b>237,837</b>	<b>199,790</b>	<b>171,119</b>
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
<b>Profit before tax</b>	<b>144,362</b>	<b>128,986</b>	<b>231,808</b>	<b>286,665</b>	<b>224,188</b>	<b>199,900</b>
Taxation	43,424	37,452	98,738	95,290	75,412	65,937
<b>Profit after tax</b>	<b>100,938</b>	<b>91,534</b>	<b>133,070</b>	<b>191,375</b>	<b>148,776</b>	<b>133,963</b>

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
<b>Total Assets</b>	<b>888,974</b>	<b>955,994</b>	<b>1,129,983</b>	<b>1,300,298</b>	<b>1,415,400</b>	<b>1,512,425</b>
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
<b>Total Liabilities</b>	<b>178,410</b>	<b>186,350</b>	<b>254,590</b>	<b>272,239</b>	<b>281,574</b>	<b>291,946</b>
Equity	710,564	769,644	875,393	1,028,060	1,133,826	1,220,479
<b>Total Equity &amp; liabilities</b>	<b>888,974</b>	<b>955,994</b>	<b>1,129,983</b>	<b>1,300,298</b>	<b>1,415,400</b>	<b>1,512,425</b>

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
<b>Operating Cash flows</b>	<b>58,859</b>	<b>68,470</b>	<b>112,605</b>	<b>114,912</b>	<b>141,479</b>	<b>179,553</b>
<b>FCFF</b>	<b>41,877</b>	<b>42,332</b>	<b>55,478</b>	<b>72,848</b>	<b>98,964</b>	<b>133,748</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>39,771</b>	<b>40,768</b>	<b>54,135</b>	<b>71,129</b>	<b>97,084</b>	<b>131,661</b>
Net change in cash	(43,557)	32,542	42,168	26,692	44,343	72,952
<b>Closing cash</b>	<b>16,842</b>	<b>7,444</b>	<b>31,631</b>	<b>48,341</b>	<b>82,232</b>	<b>144,239</b>

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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Hold	Between -5% and +15%
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