

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

3QFY22 EPS expected at PKR 10.3, up 84% YoY, DPS at PKR 2.75

- OGDC's board meeting is scheduled on April 28, 2022 to consider 3QFY22 financial results where we expect the company to post EPS of PKR 10.3, up 84% YoY. This impressive growth in earnings is mainly due to 1) higher crude oil price (+66% YoY, averaging at USD 100/bbl), 2) PKR devaluation (-11%, averaging at PKR 177.4/USD) and, 3) 4.0x YoY increase in other income. This will take 9MFY22 earnings to PKR 26.35/share, up 71% YoY. Along with the result, we expect OGDC to announce an interim cash dividend of PKR 2.75/share.
- Net sales are likely to grow by 42% YoY to PKR 93bn during 3Q. Despite significant increase in oil price and PKR devaluation, revenue growth will remain restricted owing to decline in oil and gas production.
- Exploration expenditure is expected to go down by 12% YoY to PKR 4.9bn, as against PKR 5.6bn in SPLY. OGDC encountered a dry well in Lakhi Rud block during 3Q.
- Other income is likely to see an increase of 4.1x YoY to PKR 8.2bn owing to exchange gains booked during the quarter.
- On a sequential basis, OGDC is likely to post earnings growth of 26% QoQ owing to higher international crude oil prices and PKR devaluation.
- We have a 'BUY' stance on OGDC. Our Dec-22 price target (PT) of PKR 204/share provides an upside of 138% along with a dividend yield of 11%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	204
Current Price (PKR)	85
Upside/(Downside) (%)	+ 138%
Dividend Yield (%)	11%
Total Return (%)	+ 149%
12-month High (PKR)	104
12-month Low (PKR)	78
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	367,471
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Net Revenue	65,402	92,888	42%	179,562	244,051	36%
Operating Expenses	11,272	11,586	3%	32,011	33,326	4%
Royalties	7,271	10,326	42%	20,174	27,361	36%
Gross Profit	41,064	64,562	57%	107,799	163,264	51%
Exploration Expenditure	5,587	4,933	-12%	10,809	11,826	9%
Other Income	1,627	8,249	407%	5,562	29,486	430%
Financial Charges	534	588	10%	1,680	1,729	3%
Profit Before Tax	34,823	63,512	82%	97,018	168,683	74%
Taxation	10,703	19,054	78%	30,588	55,342	81%
Profit After Tax	24,121	44,458	84%	66,430	113,341	71%
EPS	5.61	10.34	84%	15.45	26.35	71%
DPS	1.80	2.75		5.40	6.50	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	27.53	23.47	21.28	36.56	29.76	25.56
EPS Growth	50.2%	-14.7%	-9.3%	71.8%	-18.6%	-14.1%
DPS	11.00	6.75	6.90	9.00	11.00	10.00
PER	3.10	3.64	4.01	2.34	2.87	3.34
Dividend Yield	12.9%	7.9%	8.1%	10.5%	12.9%	11.7%
EV/EBITDA	1.52	2.12	2.09	1.23	1.06	0.95
P/B	0.6	0.5	0.5	0.4	0.4	0.4
ROE	19.8%	14.9%	12.4%	19.0%	13.8%	11.0%

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 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 204/share. Our price target provides an upside of 138% 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	261,481	232,925	239,104	344,241	297,150	258,870
Field Expenditures	65,084	66,922	71,935	78,472	78,911	77,751
Royalties	29,336	27,626	27,422	39,475	34,071	29,677
Gross Profit	167,062	138,377	139,746	226,293	184,168	151,442
Operating Profit	150,433	115,092	117,712	200,756	159,784	128,238
Other income	37,153	39,879	20,268	37,176	30,994	33,908
Other charges	9,295	7,598	6,789	11,578	9,215	7,396
Finance cost	1,693	3,011	2,205	2,425	2,668	2,935
Profit before tax	176,599	144,362	128,986	223,929	178,895	151,816
Taxation	58,214	43,424	37,452	66,675	50,885	41,872
Profit after tax	118,385	100,938	91,534	157,253	128,010	109,944

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	206,139	219,702	238,109
Non-Current Assets	285,593	333,902	305,324	303,113	318,134	338,618
Current assets	509,465	555,072	650,670	786,531	850,282	886,754
Total Assets	795,058	888,974	955,994	1,089,644	1,168,417	1,225,372
Non-Current liabilities	69,902	89,358	101,680	111,850	104,496	88,558
Current liabilities	78,941	89,052	84,670	89,605	95,031	100,990
Total Liabilities	148,843	178,410	186,350	201,455	199,528	189,549
Equity	646,215	710,564	769,644	888,189	968,889	1,035,824
Total Equity & liabilities	795,058	888,974	955,994	1,089,644	1,168,417	1,225,372

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	157,253	128,010	109,944
Non-cash Charges	28,768	27,628	27,670	30,196	31,054	32,169
Operating Cash flows	110,326	58,859	68,470	88,944	176,149	148,265
FCFF	73,764	41,877	42,332	55,741	144,889	114,021
Net borrowings	-	-	-	-	-	-
FCFE	72,629	39,771	40,768	54,038	142,980	111,896
Net change in cash	52,073	(43,557)	32,542	27,185	88,190	58,562
Closing cash	20,570	16,842	7,444	25,702	104,554	153,345

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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