

## Oil and Gas Development Company Limited

### Result Review

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

Pakistan Research

## OGDC: 3QFY23 EPS clocked in at PKR 15.03, up 50% YoY

- OGDC announced its 3QFY23 financial results today, wherein the company posted an EPS of PKR 15.03, up 50% YoY compared to an EPS of PKR 10.0 in SPLY. This growth is primarily led by currency devaluation against USD (-32% YoY) and higher other income. This takes 9MFY23 earnings to PKR 37.1/share, up 42% YoY. Along with the result, OGDC announced an interim cash dividend of PKR 1.8/share.
- Net sales settled at PKR 105.9bn, up 19% YoY mainly on account of PKR devaluation, despite lower hydrocarbon production. OGDC witnessed production decline during 3Q owing to lower flows from Nashpa, Adhi, Uch and TAL block.
- Exploration and prospecting expenditure increased by 52% YoY to PKR 4.2bn as against PKR 2.8bn in SPLY.
- On the contrary, other income grew by 3.5x to PKR 37.4bn on account of exchange gains and higher interest rates.
- Sequentially, net earnings grew by 55% QoQ owing to 9% QoQ increase in oil price (in PKR terms) and higher other income owing to exchange gains and elevated interest rates.
- We have a 'BUY' stance on OGDC. Our Dec-23 price target (PT) of PKR 176/share provides an upside of 103% along with a dividend yield of 10%.

#### Key Data

PSX Ticker	OGDC
Target Price (PKR)	176
Current Price (PKR)	87
Upside/(Downside) (%)	+ 103%
Dividend Yield (%)	10%
Total Return (%)	+ 113%
12-month High (PKR)	110
12-month Low (PKR)	69
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	374,439
Year End	June

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Revenue	89,104	105,913	19%	240,267	309,148	29%
Operating Expenses	11,627	20,338	75%	32,694	59,629	82%
Royalties	10,058	12,654	26%	27,092	36,129	33%
<b>Gross Profit</b>	<b>62,365</b>	<b>72,330</b>	<b>16%</b>	<b>161,066</b>	<b>212,045</b>	<b>32%</b>
Exploration Expenditure	2,800	4,246	52%	9,693	10,895	12%
Other Income	8,351	37,446	348%	29,587	65,184	120%
Financial Charges	592	1,201	103%	1,734	3,485	101%
<b>Profit Before Tax</b>	<b>64,779</b>	<b>99,772</b>	<b>54%</b>	<b>169,951</b>	<b>252,620</b>	<b>49%</b>
Taxation	21,618	35,145	63%	57,907	92,981	61%
<b>Profit After Tax</b>	<b>43,161</b>	<b>64,627</b>	<b>50%</b>	<b>112,044</b>	<b>159,639</b>	<b>42%</b>
EPS	10.0	15.0	50%	26.1	37.1	42%
DPS	1.0	1.8		4.8	5.8	

Source: Company Financials, Akseer Research

#### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	47.9	34.7	31.9
EPS Growth	-14.7%	-9.3%	45.4%	54.7%	-27.5%	-8.2%
DPS	6.8	6.9	7.3	10.0	10.0	11.0
PER	3.7	4.1	2.8	1.8	2.5	2.7
Dividend Yield	7.8%	7.9%	8.3%	11.5%	11.5%	12.6%
EV/EBITDA	2.2	2.1	1.3	1.0	1.0	0.8
P/B	0.5	0.5	0.4	0.4	0.3	0.3
ROE	14.9%	12.4%	16.2%	21.5%	13.7%	11.5%

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 176/share. Our price target provides an upside of 103% 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	418,522	361,883	338,978
Field Expenditures	66,922	71,935	80,590	82,476	96,869	99,728
Royalties	27,626	27,422	37,958	48,009	41,498	38,867
<b>Gross Profit</b>	<b>138,377</b>	<b>139,746</b>	<b>216,916</b>	<b>288,037</b>	<b>223,516</b>	<b>200,384</b>
<b>Operating Profit</b>	<b>115,092</b>	<b>117,712</b>	<b>195,706</b>	<b>264,062</b>	<b>199,651</b>	<b>175,493</b>
Other income	39,879	20,268	50,680	82,403	42,590	45,274
Other charges	7,598	6,789	12,238	19,805	14,974	13,162
Finance cost	3,011	2,205	2,340	4,443	4,887	4,887
<b>Profit before tax</b>	<b>144,362</b>	<b>128,986</b>	<b>231,808</b>	<b>322,218</b>	<b>222,381</b>	<b>202,717</b>
Taxation	43,424	37,452	98,738	116,392	73,108	65,722
<b>Profit after tax</b>	<b>100,938</b>	<b>91,534</b>	<b>133,070</b>	<b>205,826</b>	<b>149,273</b>	<b>136,995</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	288,958	323,702	362,979
Non-Current Assets	333,902	305,324	351,445	378,780	411,070	448,403
Current assets	555,072	650,670	778,538	980,745	1,034,693	1,099,843
<b>Total Assets</b>	<b>888,974</b>	<b>955,994</b>	<b>1,129,983</b>	<b>1,359,525</b>	<b>1,445,763</b>	<b>1,548,247</b>
Non-Current liabilities	89,358	101,680	139,066	197,944	169,326	173,210
Current liabilities	89,052	84,670	115,525	123,372	131,964	140,879
<b>Total Liabilities</b>	<b>178,410</b>	<b>186,350</b>	<b>254,590</b>	<b>321,316</b>	<b>301,290</b>	<b>314,089</b>
Equity	710,564	769,644	875,393	1,038,209	1,144,473	1,234,158
<b>Total Equity &amp; liabilities</b>	<b>888,974</b>	<b>955,994</b>	<b>1,129,983</b>	<b>1,359,525</b>	<b>1,445,763</b>	<b>1,548,247</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	100,938	91,534	133,070	205,826	149,273	136,995
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>135,311</b>	<b>134,294</b>	<b>171,714</b>
<b>FCFF</b>	<b>41,877</b>	<b>42,332</b>	<b>55,478</b>	<b>81,882</b>	<b>102,111</b>	<b>127,143</b>
Net borrowings	-	-	-	-	-	-
<b>FCFE</b>	<b>39,771</b>	<b>40,768</b>	<b>54,135</b>	<b>79,044</b>	<b>98,831</b>	<b>123,840</b>
Net change in cash	(43,557)	32,542	42,168	45,306	39,405	67,087
<b>Closing cash</b>	<b>16,842</b>	<b>7,444</b>	<b>31,631</b>	<b>66,955</b>	<b>95,908</b>	<b>152,050</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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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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