

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

OGDC - FY21 EPS expected at PKR 21.3, -8% YoY; DPS PKR 2.5

- OGDC is scheduled to announce FY21 results on September 27, 2021. The company is expected to post earnings of PKR 21.3 per share compared to EPS of PKR 23.27 during FY20, down 8% YoY owing to significant exchange losses booked during the outgoing fiscal year.
- Along with the result, the company is expected to announce a final dividend of PKR 2.5/share, in addition to already announced interim dividend of PKR 5.4/share, taking cumulative FY21 cash pay-out to PKR 7.9/share.
- OGDC's net revenue is expected to be around PKR 244bn, flat on YoY basis. The company's gas production declined by 4.5% YoY during FY21; however, ~3% YoY increase in oil production coupled with 4% YoY increase in average oil price resulted in the flat topline.
- Other income is likely to come at PKR 10.4bn, down 52% YoY mainly on account of exchange losses booked owing to PKR appreciation during FY21. The decline in other income will be partially offset by 13% YoY decline in the exploration cost.
- Effective tax rate is expected to clock in at 31% during FY21 as against 30% in same period last year, further restricting the bottomline growth.
- On quarterly basis, the company is expected to post EPS of PKR 5.89, up 54% YoY mainly due to low base effect. Just to recall, international crude oil prices crashed in 4QFY20 owing to bleak demand outlook amidst pandemic outbreak.
- Our Dec-21 price target (PT) of PKR 171/share provides an upside of 93% along with a dividend yield of 9%.
- We maintain our "BUY" stance on OGDC which is trading at FY22 PE and PBV of 3.7x and 0.5x, respectively.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	171
Current Price (PKR)	89
Upside/(Downside) (%)	+ 93%
Dividend Yield (%)	9%
Total Return (%)	+ 102%
12-month High (PKR)	118
12-month Low (PKR)	86
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	381,837
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Revenue	46,446	64,390	39%	244,857	243,953	0%
Operating Expenses	10,645	10,089	-5%	37,702	42,100	12%
Royalties	5,266	7,359	40%	27,626	27,532	0%
Gross Profit	20,725	39,872	92%	149,078	147,672	-1%
Exploration Expenditure	4,711	5,050	7%	18,213	15,859	-13%
Other Income	5,036	4,839	-4%	21,750	10,401	-52%
Financial Charges	672	730	9%	3,011	2,410	-20%
Profit Before Tax	19,752	36,216	83%	143,065	133,234	-7%
Taxation	3,314	10,897	229%	42,983	41,485	-3%
Profit After Tax	16,439	25,320	54%	100,082	91,749	-8%
EPS	3.82	5.89	54%	23.27	21.33	-8%
DPS	2.50	2.50		6.75	7.90	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	18.33	27.53	23.27	21.33	24.02	23.77
EPS Growth	23.6%	50.2%	-15.5%	-8.3%	12.6%	-1.0%
DPS	10.00	11.00	6.75	7.89	8.00	9.00
PER	4.84	3.23	3.82	4.16	3.70	3.74
Dividend Yield	11.3%	12.4%	7.6%	8.9%	9.0%	10.1%
EV/EBITDA	2.43	1.60	2.05	2.00	1.77	1.38
P/B	0.7	0.6	0.6	0.5	0.5	0.4
ROE	14.8%	20.1%	15.2%	12.8%	13.2%	12.1%

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 171/share. Our price target provides an upside of 93% along with a dividend yield of 9%. 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)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net sales	205,433	261,481	244,857	243,953	243,978	241,186
Field Expenditures	61,884	65,084	68,153	68,749	73,718	75,903
Royalties	21,971	29,336	27,626	27,532	27,533	27,212
Gross Profit	121,578	167,062	149,078	147,672	142,728	138,071
Operating Profit	101,299	150,433	125,794	126,640	119,021	113,146
Other income	19,083	37,153	27,812	16,584	28,319	33,733
Other charges	5,928	9,295	7,530	7,580	7,124	6,773
Finance cost	1,730	1,693	3,011	2,410	2,651	2,917
Profit before tax	112,725	176,599	143,065	133,234	137,564	137,190
Taxation	33,890	58,214	42,983	41,485	34,257	34,967
Profit after tax	78,834	118,385	100,082	91,749	103,306	102,223

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	124,064	117,787	116,355	109,198	107,999	107,351
Other LT assets	136,556	139,024	188,339	204,857	222,479	241,868
Non-Current Assets	260,619	256,811	304,695	314,055	330,478	349,219
Current assets	405,858	509,786	556,769	620,402	681,441	735,222
Total Assets	666,477	766,597	861,464	934,457	1,011,919	1,084,441
Non-Current liabilities	55,195	72,643	94,347	102,347	103,304	104,257
Current liabilities	60,726	68,588	78,259	85,451	93,057	101,111
Total Liabilities	115,921	141,232	172,606	187,798	196,360	205,368
Equity	550,556	625,365	688,858	746,660	815,559	879,073
Total Equity & liabilities	666,477	766,597	861,464	934,457	1,011,919	1,084,441

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	78,834	118,385	100,082	91,749	103,306	102,223
Non-cash Charges	26,257	28,768	28,858	24,897	29,165	30,634
Operating Cash flows	93,227	102,277	54,213	80,498	117,639	149,185
FCFF	34,749	49,999	29,146	50,400	80,493	108,811
Net borrowings	-	-	-	-	-	-
FCFE	33,539	48,865	27,040	48,740	78,502	106,638
Net change in cash	49,949	41,603	(49,447)	19,484	45,249	69,155
Closing cash	3,670	20,570	16,842	30,141	68,924	131,319

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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