

Oil and Gas Development Company Limited

Result Review

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

Pakistan Research

FY22 EPS clocks in at PKR 31.1, up 46% YoY, DPS at PKR 2.5

- OGDC announced its FY22 financial results today where the company reported an EPS of PKR 31.1, up 46% YoY. This earnings growth is attributed to higher crude oil price (+71% YoY), currency devaluation (+10% YoY) and, increase in other income (+1.9x YoY). Along with the result, OGDC announced a final cash dividend of PKR 2.5/share, taking the cumulative dividend to PKR 7.25/share in FY22.
- Despite lower oil & gas production (oil -9%, gas -4%), net sales of the company grew by 40% to PKR 335.5bn primarily on account of higher oil price and PKR devaluation.
- Exploration expenditure went down by 10% YoY to PKR 15.6bn, as against PKR 17.4bn in SPLY, mainly due to lower cost of dry wells booked during the period. Just to recall, OGDC encountered 4 dry wells during FY22.
- Other income grew by 2.3x YoY to PKR 46.6bn owing to higher exchange gains booked during the period.
- OGDC's effective tax rate remained 42.5% during FY22 as against 29.0% in SPLY, on account of 10% super tax. Had there been no super tax, OGDC's earnings would have been higher by PKR 5.4/share.
- On a quarterly basis, OGDC's earnings declined by 13% YoY to PKR 5.1/share. Despite 96% YoY increase in pre-tax earnings, enormous tax expense weighed heavily on earnings growth during 4Q.
- We have a 'BUY' stance on OGDC. Our Jun-23 price target (PT) of PKR 179/share provides an upside of 141% along with a dividend yield of 19%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	179
Current Price (PKR)	74
Upside/(Downside) (%)	141%
Dividend Yield (%)	19%
Total Return (%)	160%
12-month High (PKR)	96
12-month Low (PKR)	71
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	319,129
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Revenue	59,541	95,196	60%	239,104	335,464	40%
Operating Expenses	10,496	12,307	17%	42,508	45,001	6%
Royalties	7,249	10,866	50%	27,422	37,958	38%
Gross Profit	31,947	55,849	75%	139,746	216,916	55%
Exploration Expenditure	6,557	5,893	-10%	17,366	15,586	-10%
Other Income	8,417	16,983	102%	13,979	46,571	233%
Financial Charges	524	607	16%	2,205	2,340	6%
Profit Before Tax	31,969	62,571	96%	128,986	232,521	80%
Taxation	6,864	40,831	495%	37,452	98,738	164%
Profit After Tax	25,105	21,740	-13%	91,534	133,784	46%
EPS	5.8	5.1	-13%	21.3	31.1	46%
DPS	1.5	2.5		6.9	7.3	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	27.5	23.5	21.3	31.1	39.5	30.2
EPS Growth	50.2%	-14.7%	-9.3%	46.2%	27.1%	-23.6%
DPS	11.0	6.8	6.9	7.3	14.0	12.0
PER	2.7	3.2	3.5	2.4	1.9	2.5
Dividend Yield	14.8%	9.1%	9.3%	9.8%	18.9%	16.2%
EV/EBITDA	1.2	1.8	1.8	1.0	0.9	1.0
P/B	0.5	0.4	0.4	0.4	0.3	0.3
ROE	19.8%	14.9%	12.4%	16.3%	18.3%	12.7%

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 179/share. Our price target provides an upside of 141% along with a dividend yield of 19%. 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	FY22A	FY23F	FY24F
Net sales	261,481	232,925	239,104	335,464	364,048	312,451
Field Expenditures	65,084	66,922	71,935	80,590	82,605	81,416
Royalties	29,336	27,626	27,422	37,958	39,646	34,019
Gross Profit	167,062	138,377	139,746	216,916	241,797	197,016
Operating Profit	150,433	115,092	117,712	199,815	221,112	176,612
Other income	37,153	39,879	20,268	50,680	52,486	34,968
Other charges	9,295	7,598	6,789	12,238	13,542	10,817
Finance cost	1,693	3,011	2,205	2,340	2,668	2,935
Profit before tax	176,599	144,362	128,986	232,521	257,389	197,829
Taxation	58,214	43,424	37,452	98,738	87,315	67,967
Profit after tax	118,385	100,938	91,534	133,784	170,073	129,862

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	208,987	223,720	242,373
Non-Current Assets	285,593	333,902	305,324	305,962	322,151	342,882
Current assets	509,465	555,072	650,670	765,350	865,437	911,938
Total Assets	795,058	888,974	955,994	1,071,311	1,187,588	1,254,819
Non-Current liabilities	69,902	89,358	101,680	109,461	110,452	93,473
Current liabilities	78,941	89,052	84,670	89,605	95,031	100,990
Total Liabilities	148,843	178,410	186,350	199,066	205,483	194,463
Equity	646,215	710,564	769,644	872,246	982,106	1,060,357
Total Equity & liabilities	795,058	888,974	955,994	1,071,311	1,187,588	1,254,819

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	133,784	170,073	129,862
Non-cash Charges	28,768	27,628	27,670	30,196	31,054	32,169
Operating Cash flows	110,326	58,859	68,470	86,730	109,252	136,329
FCFF	73,764	41,877	42,332	50,861	74,791	101,875
Net borrowings	-	-	-	-	-	-
FCFE	72,629	39,771	40,768	49,515	73,028	99,948
Net change in cash	52,073	(43,557)	32,542	29,648	7,221	37,777
Closing cash	20,570	16,842	7,444	46,764	45,204	73,784

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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