

Oil and Gas Development Company Limited

Key Takeaways

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

Pakistan Research

OGDC: FY23 Corporate Briefing Key Takeaways

- OGDC conducted its conference call today for FY23 financial results, wherein the management discussed its yearly performance and status of ongoing projects. Main points discussed during the call are presented below.
- To highlight, OGDC reported FY23 PAT of PKR 224.0bn (EPS of PKR 52.23), up 67% YoY. This growth in profitability mainly emanates from higher crude oil price and PKR devaluation against USD. OGDC's oil/gas/LPG production during FY23 declined by 8.0% YoY/7.4% YoY and 10.8% YoY.
- OGDC's management apprised that recent hike in gas prices is positive from company's cash flow perspective. The management clarified that increase in consumer gas prices will not have impact on the company's profitability. However, consumer prices are now par at with production prices that will halt any fresh pile up of receivables.
- Company successfully completed the installation of Early Production Facilities (EPF) to fast-track monetization of hydrocarbons at Wali 1 (Bettani field). Currently, the field is producing 835bpd of oil and 12mmcf of gas. Moreover, drilling of Bettani-2 well is underway to enhance the production from the field.
- Gov't has approved above average gas price for Jhal Magsi which is in the range of USD 6-7 per mmbtu. Currently, company is in the process of hiring PC contractor and SSGC is laying gas pipeline for connectivity. Company targets to complete the project by May-24, which would add flows of 10mmcf to the system.
- Company signed MoU with PARCO, GHPL, MPCL and PPL, to consider and enter into areas of mutual cooperation and JV projects to pursue Green Hydrogen opportunities within and outside Pakistan. The project is currently in its infancy stage, and a firm commitment can only be made following the completion of the project feasibility study.
- Exploration and appraisal activities are underway by PIOL at offshore block 5 in Abu Dhabi and rig finalized, first appraisal well expected during 1Q of 2024, to be followed by further wells.
- During the year, company has been awarded two operated and two non-operated blocks by DGPC.
- Company success ratio is 1:2.65 as compared to industry success ratio of 1:2.8.
- Company plans to drill 16 new wells in FY24, including 9 exploratory, 6 development and one re-entry well.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	182
Current Price (PKR)	109
Upside/(Downside) (%)	+ 67%
Dividend Yield (%)	10%
Total Return (%)	+ 77%
12-month High (PKR)	113
12-month Low (PKR)	70
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	406,782
Year End	June

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	21.3	31.1	52.2	46.7	45.6	45.7
EPS growth	-9.3%	46.2%	67.9%	-10.6%	-2.4%	0.4%
DPS	6.9	7.3	8.6	11.0	18.0	21.0
PER	5.1	3.5	2.1	2.3	2.4	2.4
Dividend yield	6.3%	6.7%	7.9%	10.1%	16.5%	19.3%
EV/EBITDA	2.8	1.7	1.3	0.9	0.8	0.7
P/B	0.6	0.5	0.4	0.4	0.3	0.3
ROE	12.4%	16.3%	22.9%	17.3%	15.1%	14.0%

Source: Company Accounts, 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 182/share. Our price target provides an upside of 67% along with a dividend yield of 10%. Our investment case on OGDC is based on (1) resolution of circular debt, (2) diversified product mix which hedges against oil price volatility, (3) cash rich balance sheet which bodes well in a high interest rate environment and (4) incremental production from new discoveries.

Risks

Key downside risks to our investments thesis are: 1) decline in oil prices 2) lower than estimated currency devaluation and 3) higher than expected dry wells.

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)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	239,104	335,464	413,594	483,115	527,475	536,630
Field Expenditures	71,935	80,590	95,473	114,609	121,626	124,905
Royalties	27,422	37,958	48,394	54,904	55,556	56,514
Gross Profit	139,746	216,916	269,727	313,602	350,293	355,211
Operating Profit	117,712	196,419	243,451	281,732	314,400	320,746
Other income	20,268	50,680	165,235	86,209	63,515	58,851
Other charges	6,789	12,238	20,199	17,468	19,493	19,886
Finance cost	2,205	2,340	4,715	6,899	7,108	7,251
Profit before tax	128,986	232,521	383,773	343,574	351,313	352,459
Taxation	37,452	98,738	159,155	142,671	155,258	155,717
Profit after tax	91,534	133,784	224,618	200,904	196,055	196,743

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	95,746	92,685	85,816	86,029	91,237	95,220
Other LT assets	209,578	258,760	379,132	397,958	421,871	449,401
Non-Current Assets	305,324	351,445	464,947	483,987	513,108	544,621
Current assets	650,670	778,538	959,118	1,123,015	1,215,097	1,316,434
Total Assets	955,994	1,129,983	1,424,065	1,607,002	1,728,204	1,861,055
Non-Current liabilities	101,680	139,066	160,964	167,658	146,753	148,986
Current liabilities	84,670	115,525	180,203	202,853	226,322	250,517
Total Liabilities	186,350	254,590	341,167	370,511	373,075	399,503
Equity	769,644	875,393	1,082,898	1,236,491	1,355,130	1,461,553
Total Equity & liabilities	955,994	1,129,983	1,424,065	1,607,002	1,728,205	1,861,055

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	91,534	133,784	224,618	200,904	196,055	196,743
Non-cash Charges	27,670	27,849	34,426	34,442	32,465	33,706
Operating Cash flows	68,470	113,319	156,064	158,897	150,904	179,142
FCFF	42,332	58,413	129,500	126,522	119,895	138,012
Net borrowings	-	-	-	-	-	-
FCFE	40,768	57,066	126,740	122,488	115,928	133,964
Net change in cash	32,542	42,168	55,702	80,754	35,371	47,798
Closing cash	7,444	31,631	25,766	43,536	61,726	94,234

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

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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