

Oil and Gas Development Company Limited

Result Review

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

Pakistan Research

EPS clocks in at PKR 12.4, up 58% YoY, DPS at PKR 1.75

- OGDC announced its 1QFY23 financial results today where the company reported an EPS of PKR 12.4, compared to an EPS of PKR 7.8 in SPLY, depicting a growth of 58% YoY. The result is in line with our expectation. This earnings growth is primarily due to higher crude oil price and PKR devaluation. Along with the result, OGDC announced an interim cash dividend of PKR 1.75/share.
- Net sales grew by 48% YoY to PKR 106.0bn mainly on account of higher oil price and PKR devaluation. This is despite the fact that company's oil and gas production declined by 11% YoY and 5% YoY, respectively during the quarter.
- Exploration expense declined by 32% YoY to PKR 1.5bn as against PKR 2.3bn in SPLY mainly due to absence of dry wells.
- Other income went up by 70% YoY to PKR 18.5bn mainly on account of exchange gains.
- On sequential basis, net earnings grew by 1.4x QoQ, primarily due to low base effect as OGDC booked higher tax expense in preceding quarter owing to super tax. Moreover, 6% QoQ higher oil price (In PKR terms) coupled with lower operating expenses also supported the earnings growth during 1Q.
- We have a 'BUY' stance on OGDC. Our Jun-23 price target (PT) of PKR 187/share provides an upside of 156% along with a dividend yield of 11%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	187
Current Price (PKR)	73
Upside/(Downside) (%)	+ 156%
Dividend Yield (%)	11%
Total Return (%)	+ 167%
12-month High (PKR)	96
12-month Low (PKR)	71
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	314,871
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Net Revenue	71,531	106,012	48%
Operating Expenses	10,517	18,175	73%
Royalties	8,242	12,177	48%
Gross Profit	46,310	75,206	62%
Exploration Expenditure	2,283	1,545	-32%
Other Income	10,878	18,504	70%
Financial Charges	563	818	45%
Profit Before Tax	52,270	88,207	69%
Taxation	18,640	34,905	87%
Profit After Tax	33,629	53,303	58%
EPS	7.8	12.4	58%
DPS	1.8	1.8	

Source: Company Financials, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	23.5	21.3	30.9	41.5	30.0	26.8
EPS Growth	-14.7%	-9.3%	45.4%	34.2%	-27.8%	-10.8%
DPS	6.8	6.9	7.3	8.0	9.0	9.0
PER	3.1	3.4	2.4	1.8	2.4	2.7
Dividend Yield	9.2%	9.4%	9.9%	10.9%	12.3%	12.3%
EV/EBITDA	1.8	1.7	1.0	0.9	1.1	1.0
P/B	0.4	0.4	0.4	0.3	0.3	0.3
ROE	14.9%	12.4%	16.2%	18.8%	12.1%	10.0%

Source: Company Financials, Akseer Research

Aftab Awan
aftab.awan@alphacapital.com.pk

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 187/share. Our price target provides an upside of 156% 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	232,925	239,104	335,464	375,237	314,281	285,812
Field Expenditures	66,922	71,935	80,590	84,154	82,243	82,882
Royalties	27,626	27,422	37,958	42,447	35,545	32,321
Gross Profit	138,377	139,746	216,916	248,636	196,493	170,609
Operating Profit	115,092	117,712	195,706	226,875	175,162	148,891
Other income	39,879	20,268	50,680	58,370	33,026	35,425
Other charges	7,598	6,789	12,238	14,187	10,953	9,311
Finance cost	3,011	2,205	2,340	2,574	2,832	3,115
Profit before tax	144,362	128,986	231,808	268,484	194,403	171,890
Taxation	43,424	37,452	98,738	89,935	65,407	56,799
Profit after tax	100,938	91,534	133,070	178,549	128,997	115,091

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	274,273	310,136	350,736
Non-Current Assets	333,902	305,324	351,445	364,095	397,504	436,160
Current assets	555,072	650,670	778,538	895,916	952,123	993,698
Total Assets	888,974	955,994	1,129,983	1,260,012	1,349,626	1,429,858
Non-Current liabilities	89,358	101,680	139,066	118,974	111,763	108,470
Current liabilities	89,052	84,670	115,525	121,504	128,041	135,183
Total Liabilities	178,410	186,350	254,590	240,478	239,804	243,653
Equity	710,564	769,644	875,393	1,019,534	1,109,823	1,186,205
Total Equity & liabilities	888,974	955,994	1,129,983	1,260,012	1,349,626	1,429,858

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	100,938	91,534	133,070	178,549	128,997	115,091
Non-cash Charges	27,628	27,670	27,849	27,508	28,182	28,898
Operating Cash flows	58,859	68,470	112,605	71,737	115,871	156,373
FCFF	41,877	42,332	55,478	38,116	75,214	111,258
Net borrowings	-	-	-	-	-	-
FCFE	39,771	40,768	54,135	36,404	73,335	109,173
Net change in cash	(43,557)	32,542	42,168	3,150	22,110	57,252
Closing cash	16,842	7,444	31,631	24,799	36,457	82,764

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net