

Oil and Gas Development Company Limited

Result Preview

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

Pakistan Research

FY22 EPS Likely at PKR 33.6, up 58% YoY, DPS at PKR 3.25

- OGDC's board meeting is scheduled on September 22, 2022 to consider FY22 financial results where we expect the company to post an EPS of PKR 33.6, up 58% YoY. This unprecedented growth in earnings is primarily due to higher crude oil price (+71% YoY), PKR devaluation (+10% YoY) and, increase in other income (+1.9x YoY). Along with the result, OGDC is expected to announce a final cash dividend of PKR 3.25/share, taking the cumulative dividend to PKR 8.0/share in FY22.
- Net sales are likely to clock in at PKR 348.4bn, up 46% YoY mainly on account of higher oil price and PKR devaluation. However, this expected revenue growth overshadows the fact that company's oil and gas production has declined by 9% YoY and 4% YoY, respectively during FY22.
- Oil production decline came from 1) TAL block, down 12% YoY, 2) Nashpa field, down 16% YoY and, 3) Adhi field, down 21% YoY due to some production issues. Similarly, major decline in gas production came from 1) Qadirpur field down 14% YoY and, 2) TAL block, down 9% YoY due to gas leakage in SNGP transmission line.
- Exploration expenditure is expected to go down by 16% YoY to PKR 14.7bn, 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 is likely to see an increase of 1.9x YoY to PKR 41.5bn owing to higher exchange gains booked during the quarter.
- Effective tax rate is expected to reach 39.7% during FY22 as against 29.0% in SPLY, on account of 10% super tax, thus increasing the tax expense and restricting the bottomline growth.
- On a quarterly basis, OGDC's earnings are likely to grow by 30% YoY to PKR 7.6/share, on the back of 113% YoY higher oil price (in PKR terms). However, this earnings growth will be limited owing to 13% decline in oil production and enormous tax expense booked during the quarter.
- We have a 'BUY' stance on OGDC. Our Jun-23 price target (PT) of PKR 179/share provides an upside of 136% along with a dividend yield of 18%.

Key Data

PSX Ticker	OGDC
Target Price (PKR)	179
Current Price (PKR)	76
Upside/(Downside) (%)	+ 136%
Dividend Yield (%)	18%
Total Return (%)	+ 154%
12-month High (PKR)	96
12-month Low (PKR)	75
Outstanding Shares (mn)	4301
Market Cap (PKR mn)	326,312
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Revenue	59,541	108,118	82%	239,104	348,386	46%
Operating Expenses	10,496	12,307	17%	42,508	45,001	6%
Royalties	7,249	12,853	77%	27,422	39,945	46%
Gross Profit	31,947	70,068	119%	139,746	231,134	65%
Exploration Expenditure	6,557	4,976	-24%	17,366	14,669	-16%
Other Income	8,417	11,903	41%	13,979	41,490	197%
Financial Charges	524	692	32%	2,205	2,425	10%
Profit Before Tax	31,969	70,047	119%	128,986	239,998	86%
Taxation	6,864	37,466	446%	37,452	95,373	155%
Profit After Tax	25,105	32,581	30%	91,534	144,625	58%
EPS	5.8	7.6	30%	21.3	33.6	58%
DPS	1.5	3.3		6.9	8.0	

Source: Company Financials, Akseer Research

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Key Financial Ratios						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	27.5	23.5	21.3	33.6	39.4	29.9
EPS Growth	50.2%	-14.7%	-9.3%	58.0%	17.0%	-24.1%
DPS	11.0	6.8	6.9	8.0	14.0	12.0
PER	2.8	3.2	3.6	2.3	1.9	2.5
Dividend Yield	14.5%	8.9%	9.1%	10.5%	18.5%	15.8%
EV/EBITDA	1.3	1.8	1.8	1.0	0.9	1.0
P/B	0.5	0.5	0.4	0.4	0.3	0.3
ROE	19.8%	14.9%	12.4%	17.5%	18.1%	12.5%

Source: Company Financials, Akseer Research

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 136% along with a dividend yield of 18%. 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	FY22E	FY23F	FY24F
Net sales	261,481	232,925	239,104	348,386	364,048	312,451
Field Expenditures	65,084	66,922	71,935	77,307	82,727	81,551
Royalties	29,336	27,626	27,422	39,945	41,722	35,800
Gross Profit	167,062	138,377	139,746	231,134	239,599	195,100
Operating Profit	150,433	115,092	117,712	210,660	217,957	173,672
Other income	37,153	39,879	20,268	45,670	52,748	34,418
Other charges	9,295	7,598	6,789	13,907	14,389	11,465
Finance cost	1,693	3,011	2,205	2,425	2,668	2,935
Profit before tax	176,599	144,362	128,986	239,998	253,648	193,690
Taxation	58,214	43,424	37,452	95,373	84,398	65,174
Profit after tax	118,385	100,938	91,534	144,625	169,251	128,516

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	772,965	872,230	917,383
Total Assets	795,058	888,974	955,994	1,078,927	1,194,381	1,260,265
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	879,861	988,898	1,065,802
Total Equity & liabilities	795,058	888,974	955,994	1,078,927	1,194,381	1,260,266

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	118,385	100,938	91,534	144,625	169,251	128,516
Non-cash Charges	28,768	27,628	27,670	30,196	31,054	32,169
Operating Cash flows	110,326	58,859	68,470	79,368	126,631	134,982
FCFF	73,764	41,877	42,332	43,615	92,188	100,548
Net borrowings	-	-	-	-	-	-
FCFE	72,629	39,771	40,768	42,154	90,408	98,601
Net change in cash	52,073	(43,557)	32,542	19,061	24,601	36,430
Closing cash	20,570	16,842	7,444	36,177	51,996	79,230

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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