



Oil & Gas Development Company “OGDC”

The winning gains of \$ denomination...

The energy demand rebounded since last year has took prices above the 2014's level which is creating a serious concern for third world economy's like Pakistan.

Now there is continuous spike in crude oil prices. Still there are expectations that crude prices could eventually touch \$100/barrel and than \$125/barrel, if geopolitical condition remains same. As per Organization of Petroleum Exporting Countries (OPEC), *Arab light* has risen more than 48% yoy ~\$92.71/barrel which is impacting Pakistan directly. In the context of our market, energy is the largest market capitalization sector of KSE-100, with OG Ti Energy Index constituting a major part at the exchange.

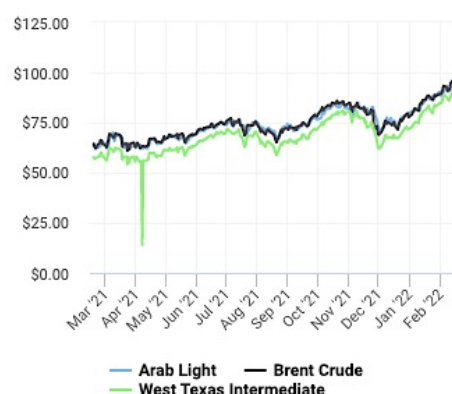
OGDC is a leader in E&P sector of Pakistan, is going to announce its 1HFY22 financial result on 23rd of February 2022, where we expect company's net earnings could be PKR 72bn (EPS of PKR 16.70) which is an increase of 94% SPLY from our perspective. This is in the wake of ever-increasing oil prices conjunction with exchange gain, despite of significant decline in gas production in the country as per media and gas data.

Nonetheless, OGDC is yielding FY22E P/E of 2.5x - having dividend yield of ~10% given company's ability to pay. OGDC is more inclined towards capital expenditure wherein we expect cash dividend for 2QFY22 to be PKR 2.5/sh (1Q: PKR 1.75/sh).

| OGDC | PKR 90.85 |
|-------------------------|------------|
| Mkt Cap | 382bn |
| Avg vol. (12m) | 3mn |
| Paid up | 43bn |
| Authorized | 50bn |
| Beta | 1.15 |
| 52 Weeks Lo | PKR 78.60 |
| 52 weeks HI | PKR 115.45 |
| Book Value as per Sep21 | PKR 186.77 |
| FY21 EPS | PKR 20.77 |
| FY22E EPS | PKR 35.61 |

Source: scstrade.com

International Oil Prices



Source: Oilprice.com

| P&L Projection (PKR mn) | 1HFY22E | 1HFY21 | Δ |
|--|----------------|----------------|------------|
| Net Sales | 151,343 | 111,097 | 36% |
| Royalty | (17,021) | (12,903) | 32% |
| Operating Expense | (34,133) | (33,687) | 1% |
| Transporation Expense | (963) | (835) | 15% |
| Gross Profit | 99,226 | 63,671 | 56% |
| Other Income | 22,190 | 6,946 | 219% |
| Exploration and Prospecting expenditure | (7,083) | (8,683) | -18% |
| General and administration expenses | (3,972) | (5,190) | -23% |
| Finance Cost | (1,165) | (1,102) | 6% |
| Share of profit in associate - net of taxation | 3,392 | - | - |
| Profit before tax | 107,089 | 55,642 | 92% |
| Taxation | (34,928) | (18,487) | 89% |
| Profit After Taxation | 72,161 | 37,155 | 94% |
| EPS | 16.70 | 8.64 | |
| DPS | 4.25 | 2.25 | |

Source, SCS Research



Crude Price Sensitivity

- ▲ We see crude prices to remain on an upward trajectory i.e. an average of 10% qoq increase, currently trading at \$90/barrel.
- ▲ The impact of increased crude prices on OGDC's EPS is presented via scenario analysis, pledging increased benefits inline with price increase.
- ▲ We saw OGDC's EPS keep on increasing subject to an increase in international oil prices. However, as per our calculation we believe FY22E EPS could be PKR 35.61 based on same hypothesis.

Sensitivity Analysis

| Crude Oil / barrel | EPS 2QFY22E | EPS 3QFY22E | EPS 4QFY22E |
|--------------------|-------------|-------------|-------------|
| \$76.00 | Rs 8.37 | Rs 7.98 | Rs 8.36 |
| \$80.00 | Rs 8.58 | Rs 8.18 | Rs 8.57 |
| \$85.00 | Rs 8.85 | Rs 8.43 | Rs 8.85 |
| \$90.00 | Rs 9.21 | Rs 8.76 | Rs 9.21 |
| \$100.00 | Rs 9.80 | Rs 9.31 | Rs 9.80 |

Source: SCS Research

| Crude Oil / barrel | EPS FY22E | EPS FY23E | EPS FY24E |
|--------------------|-----------|-----------|-----------|
| \$76.00 | Rs 33.12 | Rs 32.31 | Rs 32.24 |
| \$80.00 | Rs 33.96 | Rs 33.14 | Rs 33.08 |
| \$85.00 | Rs 35.02 | Rs 34.21 | Rs 34.14 |
| \$90.00 | Rs 36.44 | Rs 35.61 | Rs 35.54 |
| \$100.00 | Rs 38.74 | Rs 37.91 | Rs 37.84 |

Source: SCS Research

Wining \$ gains.

- ▲ As Dollar remains an all time high last year in between Nov-Dec, its appreciation impact would be seen in other income to PKR 11bn Vs PKR3bn last year thus depicting an extraordinary increase of 226%yoy.
- ▲ Concurrent to gas pricing in Dollar denomination is actually benefiting OGDC's top-line in 2QFY22.

Dollar to PKR



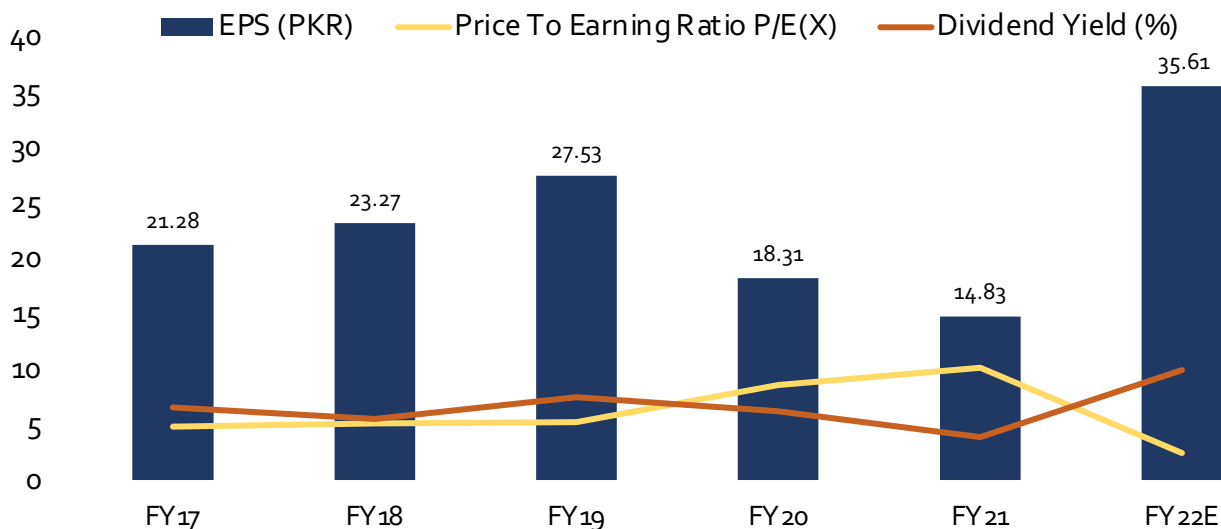
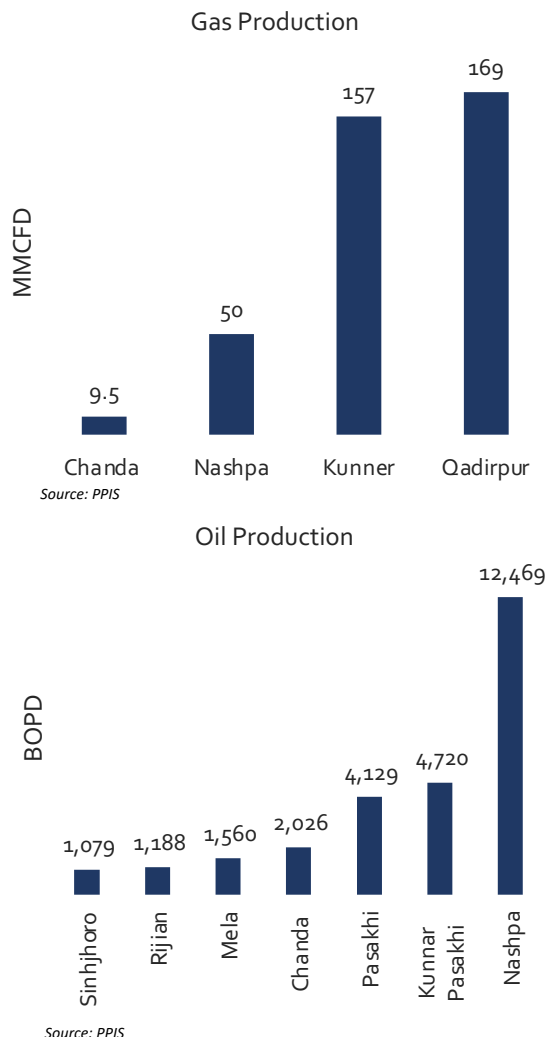
Source: Investing.com, SCS Research



Key focal areas to be considered for 2QFY22 result;

- ▲ We expect OGDC's daily gas production to be ~830mmbtu, a decline of 3% yoy, similarly per day oil production to be ~34,626 barrels owing to hurdles in-line with winter season drilling.
- ▲ Company's main fields viz. Kunnar, Nashpa and Qadirpur is declining on an average of 10% each year which is creating a serious demon over country's increasing per day demand for hydrocarbons.
- ▲ On pricing front, company's pricing mechanism proven to be a great support at such skidding production number.
- ▲ Perhaps we estimate 2Q net earnings to increase by 27% from the 1Q, accounts to PKR 38bn (EPS PKR 8.96), with higher realized prices.
- ▲ Company's return on capital employed (ROCE) for FY22E could be 25% vs past record where company reported 13.78% in FY21.
- ▲ Keeping need for adequate production of hydrocarbon we estimate OGDC's exploration expense to be PKR10bn for 1HFY22 compared to PKR 8.6bn in 1HFY21, an increase of 16%yoy.

OGDC is more inclined towards capital expenditure wherein we expect cash dividend for 2QFY22 to be PKR 2.5/sh.



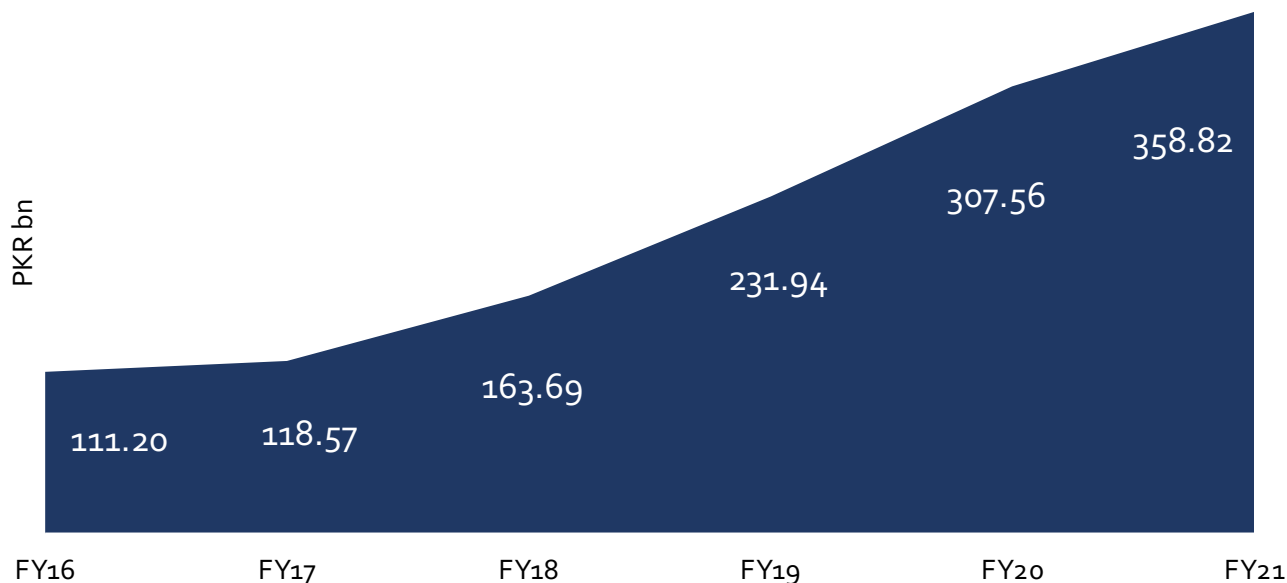
Source: Company's financials, SCS Research



There is an anguish in circular debt story!

- ▲ Circular debt story remains a serious agony for E&P sector. Our entire stock of circular debt soared to PKR~2.4trn as at End-Oct'21 (up ~6% from End-June'21) representing an increase of PKR~130bn where OGDC's receivables amounted PKR 358bn as per 1QFY21 results.
- ▲ This although still large, is reflecting a slowdown in the accumulation of circular debt, whose growth went exorbitantly high in FY19 by ~44% but then slowed to ~33% in FY20 and declined to just ~6% in FY21.
- ▲ As per "Circular Debt Management 2021-23 Plan " the government has devised a comprehensive two year Circular Debt Management Plan to curtail the growing circular debt by transferring the burden onto the consumers through increase in power tariff and quarterly adjustments in billing.
- ▲ Additionally, the electricity distribution companies collections are planned to be increased and losses are planned to be reduced through efficiency gains. Moreover, the plan includes measures such as reduction in unplanned subsidies, conversion of Power Holding Limited Company (PHLC) debt to public debt, mark up payments through fiscal spaces and receipt of payables by KE.
- ▲ This may combat the monsterring receivables on company's balance sheet.

Trade debt



Source: Company's financials

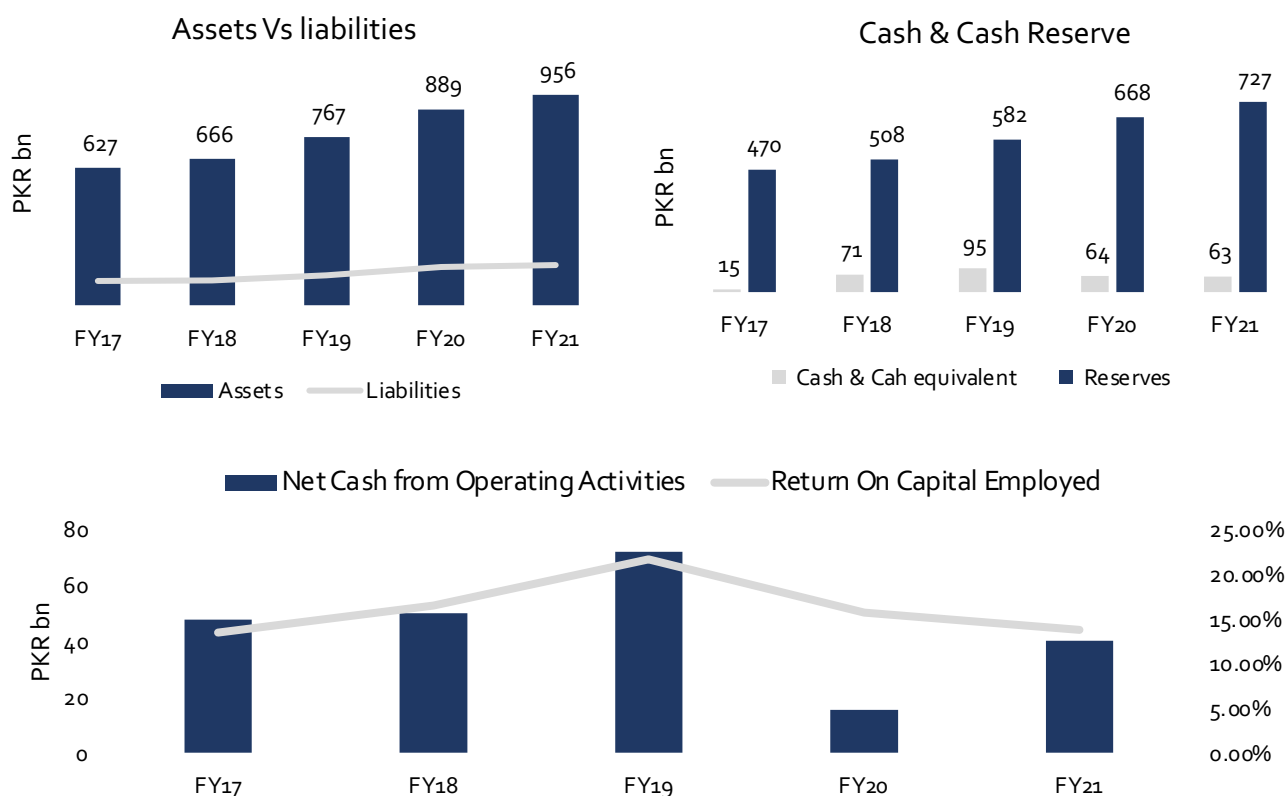


Valuation

Based on our valuation methodology OGDC's FY22 target price is PKR 196/sh which is currently trading at a significant discount of 55%, having PE 2.5x and dividend yield of 10%.

| PKR bn | FY21 | FY22E |
|--|---------|---------|
| Net Sales | 241.13 | 314.41 |
| Royalty | (27.28) | (34.96) |
| Operating Expense | (69.00) | (70.01) |
| Transportation Expense | (1.98) | (2.10) |
| Gross Profit | 142.87 | 207.34 |
| Other Income | 13.89 | 45.16 |
| Exploration and Prospecting expenditure | (17.37) | (17.46) |
| General and administration expenses | (10.38) | (9.63) |
| Finance Cost | (2.20) | (2.37) |
| Share of profit in associate - net of taxation | 0.00 | 6.54 |
| Profit before tax | 120.02 | 218.58 |
| Taxation | (36.97) | (65.44) |
| Profit After Taxation | 83.05 | 153.14 |
| EPS | 19.31 | 35.61 |
| DPS | 7.00 | 10.00 |

Source, SCS Research



Source: Company's financials, SCS Research



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- Standard Capital Securities (Pvt.) Ltd. standardized recommendation structure i.e. positive, Hold and negative, based on rating system i.e.

- (Target Price, if any/Current Price - 1) > 10% Positive*
- (Target Price, if any/Current Price - 1) < -10% Negative*
- less than 10% (Target Price, if any/Current Price -1) Hold*

- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value