



Oil & Gas Development Company “OGDC”

Contribution of oil flow could build earnings...

OGDC is in limelight with ‘some’ contribution of oil flow given spike in crude oil prices due to recent geo political events. As per Organization of Petroleum Exporting Countries (OPEC), *Arab Light* has risen more than 57% yoy ~\$97.32/barrel which is impacting Pakistan directly.

Recently, OGDC announced PKR 2/sh cash dividend (dividend Ex date 7th March 2022). OGDC recorded EPS of PKR 8.20/sh in 2QFY22, an increase of 94% yoy~ net profit of PKR 35bn owing to ever-increasing average realized prices of gas oil and LPG in conjunction with currency impact:

- Realized oil at US\$63.23/bbl - an increase of 63% yoy till 1HFY22.
- Realized gas price at PKR 404.28/MCF an increase of 7% yoy.
- LPG on an average of PKR 113,962/ton - recorded an increase of 81% yoy.

The net sales and resultant earnings during 1HFY22 is huge despite decline in gas production by 3% yoy~827mmscf/day while there was slight surge of 1% yoy in oil production to ~36,788bbl/day and increase of 5%yoy in LPG to ~814metric tons/day was recorded in 1HFY22 result. Hence production profile is nominal and impact is realized via components linked to currency surge and spike in international oil price.

As Dollar in international market is strengthening, supplement to increased inflation has weakened local currency further, while we see Dollar to keep its bullish catalyst through out this year. Meanwhile OGDC’s other income could show an extraordinary increase of more than 200% yoy to PKR 42bn in FY22 as per our model assumption.

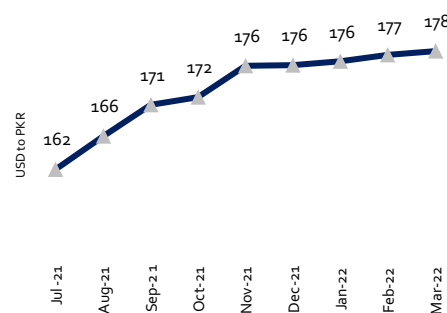
In the context of geopolitical situation we have forecasted OGDC’s earnings based on change in international oil prices – taking cue of PKR - \$ parity at PKR 174. We can presume the oil prices to be settled by 2023. Hence OGDC could have field-day as it could report EPS of PKR 35.42/sh or more in FY22 as per our model update from previous report.

OGDC	PKR 92.25
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 33.89

Source: scstrade.com

PKR mn	1HFY22	1HFY21	Δ
Nets Sales	151,163	110,979	36%
Royalty	(17,034)	(12,902)	32%
Operating Expense	(34,369)	(33,301)	3%
Transportation Expenses	(1,059)	(835)	27%
Gross Profit	98,701	63,941	54%
Other Income	21,237	6,597	222%
Exploartion expenditure	(6,893)	(5,222)	32%
administration expenses	(2,134)	(2,113)	1%
Finance Cost	(1,141)	(1,146)	0%
Share of profit in associate	936	3,280	-71%
Profit before tax	105,172	62,071	69%
Taxation	(36,289)	(19,843)	83%
Profit After Taxation	68,883	42,225	63%
EPS	16.02	9.82	
DPS	4.19	2.25	

Source: Company’s financials, SCS Research



Source: Investing.com



Source: Oilprice.com

Sensitivity Analysis Table

Crude Oil/ barral		EPS	
		FY22E	EPS FY23E
\$70.00	Rs	33.94	Rs 32.38
\$75.00	Rs	34.34	Rs 33.49
\$80.00	Rs	35.45	Rs 34.60
\$85.00	Rs	36.93	Rs 36.07
\$90.00	Rs	38.14	Rs 37.27

Source: SCS Research



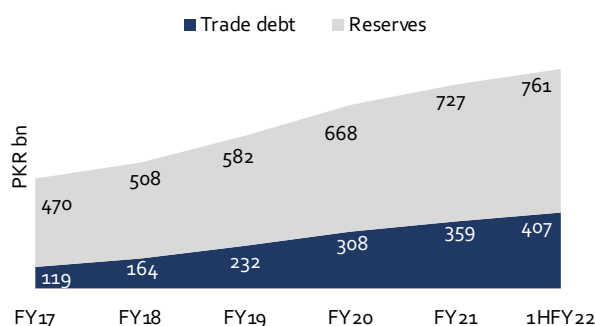
Hence, average realised prices of oil in FY22 could be ~\$70/bbl or more depend on geoeconomics, the relevant impact on EPS is presented via scenario analysis, pledging increased benefits inline with price increase.

Furthermore, passing of act of WACOG bill will increase OGDC's liquidity, and recent announcement of setting off circular debt with cash dividend will combat trade receivables of PKR 407bn.

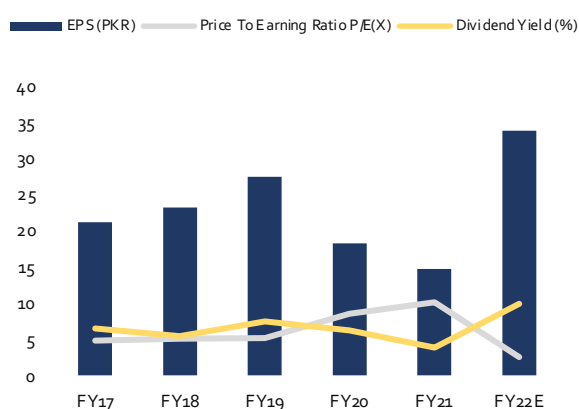
Nonetheless, OGDC is yielding FY22E P/E of 2.6x - having dividend yield of ~11% given company's ability to pay. Recent finance minister statement regarding dividends from state enterprises could verily change this picture of OGDC.

Future Outlook.

The ongoing tribulation around the world has pushed commodities and oil prices at historic high and it seems crude will make its new high very soon if things remain same or gets much worse. The consequences of this will not be resisted to Europe, the world economy will take a new shift, where oil producers will be the most beneficiary while rest will suffer from recession. The sky rocketing inflation rates compliment to oil getting expensive day after day. As per JP Morgan, crude oil could touch \$125/barrel and then \$150/barrel in 2QCY22 most probably. Likewise OGDC's yearly earning could go to PKR 40/sh if realised price touches \$100/bbl.



Source: Company's Financials, SCS



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PKR bn	FY21	FY22E	FY23E
Net Sales	241.13	310.73	316.08
Royalty	(27.28)	(34.59)	(34.77)
Operating Expense	(69.00)	(69.47)	(69.54)
Transporation Expense	(1.98)	(2.18)	(3.24)
Gross Profit	142.87	204.50	208.53
Other Income	13.89	42.27	43.11
Exploration and Prospecting expenditure	(17.37)	(17.27)	(17.37)
General and administration expenses	(10.38)	(7.90)	(7.90)
Finance Cost	(2.20)	(2.35)	(2.41)
Share of profit in associate - net of taxation	-	4.08	6.29
Profit before tax	120.02	212.34	219.15
Taxation	(36.97)	(66.60)	(60.62)
Profit After Taxation	83.05	145.74	158.53
EPS	19.31	33.89	36.86
DPS	7.00	10.00	15.00

Source, SCS Research



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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