

Earning Review

OGDC: 1QFY22 EPS clocked in at Rs7.8, DPS Rs1.75

Event

- Oil and Gas Development Company (OGDC PA) profitability clocked in at Rs33.6bn (EPS Rs7.8) during 1QFY22, up 44% YoY, against profitability of Rs23.4bn (EPS Rs5.4) in 1QFY21.
- Result is accompanied with cash payout of Rs1.75/sh.

Impact

- We attribute increase in profitability to higher oil and LPG production, higher Arab Light prices, exchange gain on dollar denominated assets and lower exploration and production expense.
- However, lower gas production has restricted company's profitability growth.
- Oil production is up by ~5% YoY primarily because of 40% YoY increase in flows from KPD field. To highlight, KPD field forms ~25% of total company's oil flows. However, production is down from Naspha (~12% YoY), Adhi (~9% YoY) and TAL block (~14% YoY).
- Gas production of the company is down by 3% YoY given reduced flows from KPD (down 15% YoY), Qadirpur (down 20% YoY) and TAL Block (down 8% YoY). However, production from UCH increased by 6.1% YoY given higher utilization of UCH power plant.
- Company's LPG production is up by 20% YoY given 25% YoY and 14.7% YoY increase in production from KPD and Naspha fields.
- Moreover, the average price of Arab light was up 70% YoY at ~US\$74.1/bbl in 1QFY22 against ~US\$43.5/bbl in 1QFY21.
- To note, dollar devalued by ~1.4% YoY in 1QFY22.
- Exploration and prospecting expense of the company reduced by 23% YoY to Rs2.3bn. During the quarter, OGDC hit one dry well at Ranipur against three dry wells at Guddu, Larkana and Ghotki during the same period last year.
- Company's other income is up by 149% YoY as higher US\$-Rs closing (↑7.8%, QoQ) resulted in exchange gain during the quarter.
- On sequential basis, profitability is up significantly by 34% given (1) increase of 8.6% QoQ in Arab Light prices (2) higher oil and LPG production by 2% QoQ and 6% QoQ, (3) higher dollar indexation by 7.2% QoQ and (4) 65% QoQ decrease in exploration and production expense.

Outlook

- We have an "Outperform" stance on the scrip given discounted valuation from its peers and trading at lower implied oil prices. We believe OGDC portfolio remains well balanced with average oil and gas reserves life of ~13 and ~15 years.

Analyst

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Fig 1: 1QFY22 Financial Highlights

	1QFY22	1QFY21	YoY	QoQ
Sales Revenue	71,531	59,528	20%	20%
Operating costs	11,089	10,597	5%	14%
SG&A	1,545	1,074	44%	24%
Royalty	8,242	6,727	23%	14%
EBITDAX	50,654	41,130	23%	23%
D&A	5,485	6,906	-21%	-48%
Exploration write-offs	2,283	2,957	-23%	-65%
EBIT	42,886	31,268	37%	78%
Interest income	12,697	5,108	149%	27%
Finance cost	563	564	0%	7%
Other charges	2,751	1,791	54%	64%
OPBT & ABN'S	52,270	34,020	54%	64%
Tax expense	18,640	10,593	76%	172%
OPAT b/f Abn.s	33,629	23,427	44%	34%
EPS	7.8	5.4		

Source: PSX, Company reports, Foundation Research, October 2021

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.