

## Earning Review

### OGDC: 2QFY22 EPS clocked in at Rs8.2, DPS Rs2.0

#### Event

- Oil and Gas Development Company (OGDC PA) profitability clocked in at Rs35.3bn (EPS Rs8.2) during 2QFY22, up 87% YoY, against profitability of Rs18.9bn (EPS Rs4.4) in 2QFY21. This cumulates into 1HFY22 profitability of Rs68.9bn (EPS Rs16.0), up 63% YoY, compared to Rs42.3 (EPS Rs9.8) in 1HFY21.
- Result is accompanied with cash payout of Rs2.0/sh cumulating into cash payout of Rs3.75/sh in 1HFY22.

#### Impact

- We attribute increase in profitability to (1) higher oil and gas production, (2) increased Arab Light prices, (3) higher dollar indexation and (4) exchange gain on dollar denominated assets.
- However, lower LPG production and higher exploration and development expense has restricted company's profitability growth.
- Oil production is up by ~1% YoY primarily because of 36% 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 (~13% YoY), Adhi (~21% YoY) and TAL block (~12% YoY).
- Gas production of the company is up by 1.2% YoY given increased flows from Uch (up 30% YoY) despite lower production from KPD (down 24% YoY), Qadirpur (down 11% YoY) and TAL Block (down 8% YoY). Production from Uch increased due to higher utilization of Uch power plant.
- Company's LPG production is down by 6.5% YoY given 9.4% YoY and 4.7% YoY decrease in production from KPD field and TAL block. However, production of LPG from Nashpa field increased by 6% YoY in 2QFY22.
- Moreover, the average price of Arab light was up 83% YoY at ~US\$79.7/bbl in 2QFY22 against ~US\$43.5/bbl in 2QFY21.
- To note, dollar appreciated by ~7.9% YoY in 2QFY22.
- Exploration and prospecting expense of the company increased by 103% YoY to Rs4.6bn. During the quarter, OGDCL hit one dry well Seni Gumbat at Kohat Block.
- Company booked loss of Rs883bn under share of profit from associate due to Share of loss of Rs2.4bn booked with respect to 3D seismic cost incurred by the associate PIOL.
- During the previous quarter, the Company, along with other consortium members i.e. Mari Petroleum Company Limited (MPCL), Pakistan Petroleum Limited (PPL) and Government Holdings (Private) Limited (GHPL) has been awarded Offshore Block 5 in Abu Dhabi's second competitive exploration block bid round. The consortium companies have established an independent company Pakistan International Oil Limited (PIOL) at Abu Dhabi Global Market with each consortium company having a 25% equity stake in PIOL. The exploration concession agreement between PIOL and Abu Dhabi National Oil Company (ADNOC) was signed on 31 August, 2021. The investment in PIOL has been classified as an investment in associate as per the requirements of International Accounting Standard IAS-28, "Investment in Associates and Joint Ventures". The amount represents US\$25mn (Rs4.2bn) invested by the Company in PIOL.
- Company's interest income is up by 350% YoY as higher US\$-Rs closing (↑4.1%, QoQ) resulted in exchange gain during the quarter.

- On sequential basis, profitability is up by 5% given (1) increase of 7.6% QoQ in Arab Light prices and (2) higher dollar indexation by 5.5% QoQ despite lower production across the board along with higher exploration and development 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.

Fig 1: 2QFY22 Financial Highlights

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Sales Revenue	79,633	54,632	46%	11%	151,163	110,980	36%
Operating costs	10,956	10,977	0%	4%	21,473	20,354	6%
SG&A	1,648	1,039	59%	7%	3,193	2,949	8%
Royalty	8,792	6,176	42%	7%	17,034	12,903	32%
EBITDAX	58,237	36,440	60%	14%	109,463	74,775	46%
D&A	6,838	6,042	13%	13%	12,896	12,948	0%
Exploration write-offs	4,610	2,266	103%	102%	6,893	5,222	32%
EBIT	46,789	28,132	66%	9%	89,675	56,604	58%
Interest income	9,476	2,107	350%	-25%	22,173	9,878	124%
Finance cost	578	582	-1%	3%	1,141	1,146	0%
Other charges	2,784	1,483	88%	1%	5,535	3,267	69%
OPBT & ABN'S	52,902	28,174	88%	1%	105,172	62,069	69%
Tax expense	17,649	9,292	90%	-5%	36,289	19,844	83%
<b>OPAT b/f Abn.s</b>	<b>35,253</b>	<b>18,882</b>	<b>87%</b>	<b>5%</b>	<b>68,883</b>	<b>42,225</b>	<b>63%</b>
EPS	8.2	4.4			16.0	9.8	

Source: PSX, Company reports, Foundation Research, February 2022

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