

Earning Review

OGDC: 1QFY23 EPS clocked in at Rs12.4, DPS Rs1.75

Event

- Oil and Gas Development Company (OGDC PA) profitability clocked in at Rs53.3bn (EPS Rs12.4) during 1QFY23, up 59% YoY, against profitability of Rs33.6bn (EPS Rs7.8) in 1QFY22.
- Result is accompanied with cash payout of Rs1.75/sh.

Impact

- We attribute increase in profitability to (1) higher Arab Light prices and dollar indexation, (3) increase in exchange gain on dollar denominated assets and (4) lower exploration expense.
- However, company production is down across the board due to supply chain disruption given unprecedented monsoon season.
- Oil production is down by ~12% YoY due to lower production from Naspha (down 2% YoY), KPD field (down 6% YoY), Adhi (down 23% YoY) and TAL (down 4% YoY).
- To highlight, KPD and Naspha field forms ~25% and ~22% of company's total oil flows.
- Gas flows of the company are down by 4% YoY given lower flows from Uch (down 15% YoY), KPD (down 1% YoY) and TAL Block (down 11% YoY). However, production from Qadirpur field is up 5% YoY.
- Company's LPG production is down by 15% YoY primarily because of 39% YoY decline in production from KPD field. Moreover, production of LPG from TAL Block and Adhi field are also down by 11% YoY and 18% YoY in 1QFY23.
- The price of Arab light price is up by 43% YoY to average at ~US\$116/bbl in 1QFY23 against ~US\$74/bbl in 1QFY22. Whereas, oil price used for gas price indexation is up by 67% YoY in 1QFY23.
- To note, average dollar appreciated by ~36% YoY in 1QFY23.
- Exploration and prospecting expense of the company decrease by 32% YoY to Rs1.5bn against expense of Rs2.3bn in 1QFY22.
- Company's interest income is up by 66% YoY on higher revaluation gain on US\$-denominated assets as US\$-Rs closing is up by 11.8% QoQ resulting in exchange gain.

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: 1QFY23 Financial Highlights

	1QFY23	1QFY22	YoY	QoQ
Sales Revenue	106,012	71,531	48%	11%
Operating costs	6,197	10,517	-41%	-67%
SG&A	1,463	1,545	-5%	-26%
Royalty	12,177	8,242	48%	12%
EBITDAX	86,176	51,227	68%	36%
D&A	11,978	6,057	98%	29%
Exploration write-offs	1,545	2,283	-32%	-74%
EBIT	72,653	42,886	69%	50%
Interest income	21,015	12,697	66%	16%
Finance cost	818	563	45%	35%
Other charges	4,642	2,751	69%	41%
OPBT & ABN'S	88,207	52,270	69%	41%
Tax expense	34,905	18,640	87%	-15%
PAT	53,303	33,629	59%	145%
EPS	12.4	7.8		

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

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Recommendations definitions

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