Earning Review

OGDC: 2QFY23 EPS clocked in at Rs9.7, DPS Rs2.25

Event

- Oil and Gas Development Company (OGDC PA) profitability clocked in at Rs41.7bn (EPS Rs9.7) during 2QFY23, up 18% YoY/down 22% QoQ, against profitability of Rs35.2bn (EPS Rs8.2) in 2QFY22. This cumulated into profitability of Rs95.0bn (EPS Rs22.1) in 1HFY23 versus Rs68.9bn (EPS Rs16.0) during 1HFY22.
- Result is accompanied with cash payout of Rs2.25/sh taking half year payout to Rs4.0/sh.
- The result is in line with our expectation.

Impact

- We attribute increase in profitability to higher (1) Arab Light prices and (2) dollar indexation.
- However, company production is down across the board due to supply chain disruption given lower demand of Furnace oil from power sector.
- Oil production is down by ~10% YoY due to lower production from Naspha (down 13.6% YoY), KPD field (down 8.2% YoY), Adhi (down 5% YoY) and TAL (down 8.6% 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 3% YoY given lower flows from Uch (down 1% YoY), Qadirpur (down 5.3% YoY), KPD (down 4% YoY) and TAL Block (down 10.8% YoY).
- Company's LPG production is down by 4% YoY primarily because of 11.6% YoY decline in production from KPD field. Moreover, production of LPG from TAL Block is also down by 6.3% YoY 2QFY23.
- The price of Arab light price is up by 14% YoY to average at ~US$91/bbl in 2QFY23 against ~US$80/bbl in 2QFY22. Whereas, oil price used for gas price indexation is up by 67% YoY in 2QFY23.
- To note, average dollar appreciated by ~28% YoY in 2QFY23.
- Exploration and prospecting expense of the company increased by 11% YoY to Rs5.1bn against expense of Rs4.6bn in 2QFY22.
- Company spud 3 wells including 2 exploratory wells; Chak 20-1 & Gaja Wah-1 and 1 development well; Chanda-7 in 2QFY23.
- Company's interest income is up by 20% YoY on higher interest rates.

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.
- Moreover, higher oil prices, dollar hedged revenue, debt free balance sheet and improving cash flows amid resolution of gas sector circular debt along with energy sector reforms make a strong investment case for the stock. Expansion into mining business and pricing of newer finds on lucrative rates would further strengthen our conviction.

Fig 1: 2QFY23 Financial Highlights

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales Revenue	97,223	79,633	22%	-8%	203,236	151,163	34%
Operating costs	21,116	17,794	19%	16%	39,291	34,369	14%
SG&A	1,558	1,648	-5%	7%	3,020	3,193	-5%
Royalty	11,298	8,792	28%	-7%	23,474	17,034	38%
Exploration write-offs	5,104	4,610	11%	230%	6,649	6,893	-4%
EBIT	**58,148**	**46,789**	**24%**	**-20%**	**130,801**	**89,675**	**46%**
Interest income	11,361	9,476	20%	-46%	32,376	22,173	46%
Finance cost	1,466	578	154%	79%	2,284	1,141	100%
Other charges	3,402	2,784	22%	-27%	8,045	5,535	45%
PBT	**64,640**	**52,902**	**22%**	**-27%**	**152,848**	**105,172**	**45%**
Tax expense	22,931	17,649	30%	-34%	57,836	36,289	59%
PAT	**41,709**	**35,253**	**18%**	**-22%**	**95,012**	**68,883**	**38%**
EPS	9.7	8.2			22.1	16.0	

Source: PSX, Company reports, Foundation Research, February 2023

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Recommendations definitions

If

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