

PAKISTAN

February 22, 2023

Foundation Alert

OGDC: Analyst Briefing Key Takeaways

Event

- Oil and Gas Development Company Limited (OGDCL) held its Conference call today to discuss the company's financial performance for 1HFY23 and future plans. Following are the key takeaways of the call.

Impact

- Management reiterates company's dominance in the exploration and production as it holds 33% and 34% of oil and gas hydrocarbon reserves respectively as at Jun 30'22. During Jul'22 to Dec'22, the company contributed 46%, 29% and 37% of country's oil, gas and LPG production.
- Company holds 467.3mmboe (Oil 53.8 and Gas 413.4) reserves of hydrocarbon on 1P basis and 759.0mmboe (Oil 92.8 and Gas 666.4) reserves on 2P basis as of Dec 31'22 with operations in 49 blocks, covering 40% of Country's total acreage awarded.
- Company's production stood at 33.1k bpd of oil (down ~10.1% YoY), 772mmcf of gas (down ~6.6% YoY) and 730tpd of LPG (down 10.3% YoY), during 1HFY23.
- Management attributed decrease in oil and gas production to natural decline at KPD-TAY, Bobi, Chanda, Mela, TOC, Bitrism and Nashpa fields combined with forced production curtailment owing to torrential rains/flood at Palli, Mangrio and KPD-TAY fields resulting in daily production loss of 810bbls of crude oil, 35mmcf of gas and 22tons of LPG.
- Likewise, lower gas production was observed due to less gas intake by UPL from Uch field due to technical issues at Uch power plant as well as on account of rupture incident at the 26" gas pipeline (Uch field to UPL plant). The reduction in production from NJV fields also contributed towards lower hydrocarbon output.
- The decline in hydrocarbon production was partially mitigated by injection of 2 operated wells in the production gathering system, which cumulatively yielded gross crude and gas production of 49,436bbls and 791mmcf respectively.
- Management states that during 1HFY23 realized oil prices were US\$78.60/bbl against US\$63.23/bbl last year, while the realized price for gas stands at Rs570.00/mcf as against Rs404.28/mcf during 1HFY22.
- During 1HFY23, 4 wells were spud, comprising of three exploratory/appraisal and one development well. Moreover, company's exploratory well efforts yielded three new oil and gas discoveries in 1HFY23.
- In an effort to arrest natural decline and sustain production from mature wells, OGDCL during the period under review carried out thirty four (34) work-over jobs comprising six (6) with rig and twenty eight (28) rig-less. Moreover, to induce improvement in the current well flow parameters, pressure build-up survey jobs were completed at various wells of Uch, Qadirpur, Maru-Reti and Kunnar fields. Additionally, electrical submersible pumps were installed at Pasakhi North-3 and Sono-4 & 7 resulting in incremental oil production of 2,000bpd.
- KPD-TAY compression facility would be completed by Sep'24 that would inject incremental 443bbl of condensate, 66mmcf of gas and 66tpd of LPG to the system.
- Dakhni Compression facility with expected incremental production of 170bbl of condensate, 7mmcf of gas and 1.8tpd of LPG would be commissioned by Apr'24.
- Moreover, Uch compression project would be completed by Jul'24 and enhance sustainability of gas flows at 480mmcf including incremental injection of 40mmcf.

- Management states that development work at Wali field, in line with the field development plan, is underway for bringing production on line in last quarter of this year. To highlight OGDC having 100% working interest in Wali Exploration License discovered 37 mmcf of gas and 2,850 bpd of oil in 1QFY22.
- All the conditions precedent as set out in the Framework Agreement, including but not limited to, the signing of the definitive agreements and judicial validation were completed as on Dec 15'22. The Company has invested in the project company, i.e. Reko Diq Mining Company (Private) Limited (RDML) through Pakistan Minerals (Private) Limited (PMPL), an entity incorporated in Pakistan in accordance with the agreements for collective representation of the Company, PPL and GHPL. RDML is engaged in the mineral exploration activities in Pakistan. The Company's equity interest in PMPL is 33.33% with an effective interest of 8.33% in RDML.
- At Offshore block-5, planned exploration and evaluation activities are currently underway, whereby appraisal plan has been approved by ADNOC and contract for long lead items has been placed. Moreover, technical studies for drilling of appraisal wells, assess and select studies for surface facilities and finalization of jack-up rig contract for exploratory and appraisal wells are in progress.

Outlook

- We have an "Outperform" stance on the scrip with Dec'23 TP of Rs137.8 given discounted valuation from its peer and trading at lower implied oil prices.
- 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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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.