

Earning Review

OGDC: 3QFY23 EPS clocked in at Rs15.0, DPS Rs1.8

Event

- Oil and Gas Development Company (OGDC PA) profitability clocked in at Rs64.6bn (EPS Rs15.0) during 3QFY23, up 50%/55% YoY/QoQ, against profitability of Rs43.2bn (EPS Rs10.0) in 3QFY22. This cumulated into profitability of Rs159.6bn (EPS Rs37.1) in 9MFY23 versus Rs112.0bn (EPS Rs26.1) during 9MFY22.
- Result is accompanied with cash payout of Rs1.8/sh taking half year payout to Rs5.8/sh.
- The result is in slightly above our expectation given lower operating expenses.

Impact

- We attribute increase in profitability to (1) higher Arab Light prices, (2) dollar indexation and (3) foreign exchange gains.
- However, company production is down across the board due to supply chain disruption given lower demand for Furnace oil from power sector.
- Oil production is down by ~9% YoY due to lower production from Naspha (down 14.1% YoY), KPD field (down 2.7% YoY), Adhi (down 2% YoY) and TAL (down 7.3% 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 6% YoY given lower flows from Uch (down 4.1% YoY), Qadirpur (down 3.1% YoY), KPD (down 1% YoY) and TAL Block (down 9.8% YoY).
- Company's LPG production is down by 8% YoY primarily because of 18.1% YoY decline in production from KPD field. Moreover, production of LPG from TAL Block is also down by 3.6% YoY 3QFY23.
- The price of Arab light price is down by 18% YoY to average at ~US\$82/bbl in 3QFY23 against ~US\$100/bbl in 3QFY22. Whereas, oil price used for gas price indexation is up by 28% YoY in 3QFY23.
- To note, average dollar appreciated by ~46% YoY in 3QFY23.
- Exploration and prospecting expense of the company increased by 52% YoY to Rs4.2bn against expense of Rs2.8bn in 3QFY22.
- Company's interest income is up by 280% YoY on foreign exchange gains as dollar appreciated by 24.9% between the reporting rates and 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: 3QFY23 Financial Highlights

	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
Sales Revenue	105,913	89,104	19%	9%	309,148	240,267	29%
Operating costs	12,248	16,174	-24%	-42%	51,538	50,543	2%
SG&A	2,191	1,743	26%	41%	5,211	4,936	6%
Royalty	12,654	10,058	26%	12%	36,129	27,092	33%
Exploration write-offs	4,246	2,800	52%	-17%	10,895	9,693	12%
EBIT	66,484	58,329	14%	14%	197,285	148,004	33%
Interest income	39,740	10,452	280%	250%	72,116	32,625	121%
Finance cost	1,201	592	103%	-18%	3,485	1,734	101%
Other charges	5,251	3,409	54%	54%	13,296	8,945	49%
PBT	99,772	64,779	54%	54%	252,620	169,951	49%
Tax expense	35,145	21,618	63%	53%	92,981	57,907	61%
PAT	64,627	43,161	50%	55%	159,639	112,044	42%
EPS	15.0	10.0			37.1	26.1	

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

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