

Oil & Gas Development (OGDC)

1HFY18 Conference Call Notes

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Key Takeaways

- OGDC reported earnings of Rs19.7bn (EPS Rs4.6/share) in 2QFY18, up 28% YoY while revenues were up 25% YoY to Rs52bn. Revenues grew on the back of higher Arab Light oil prices, up 25%, 2) 4% higher gas production, 3) PKR devaluation against the greenback and 4) incremental revenues on account of TAL block.
- Oil production during the outgoing quarter declined by 6% to avg. ~40kbpd mainly on the back of noticeable decline in production from Nashpa field. However, gas production was up 4% YoY to avg. ~1,031mmcf in 2QFY18.
- During 2QFY18, exploration charges of the company grew significantly to Rs5.8bn, up 51% YoY (vs. Rs1.5bn in 1QFY18), mainly on account of ~Rs4bn dry well cost.
- During 1HFY18, revenues and earnings were up 18% and 22% YoY to Rs96bn and Rs37bn (EPS Rs8.5), respectively.
- The company spud a total of nine wells in 1HFY18, including 4 exploratory (Qadir Wali-1, Shawa X-1, Urs-1 and Ganjo Takkar-1) and 5 development (Mela-6, Kunnar West2, Pasahki North-3 and adirpur-25A & HRL-14) wells. The company made three new oil and gas discoveries (Bhambara-1, Tando Allah Yar South West-1 and Dhok Hussain-1).
- Since the company is sitting on ample cash & equivalents (Rs146bn as of Sep 2017), it is looking for various investment options which include acquisition of exploratory assets outside Pakistan as well as evaluating opportunities in both upstream and downstream sectors.
- The company announced an unusual cash dividend of Rs3/share in 2QFY18 and depending upon cash position and future investment opportunities, this trend may continue.
- **Update on supplemental agreement dispute:** The company has taken various legal opinions and believes that the Govt. cannot unilaterally amend the supplementary agreement (which affected Pakistan Oilfields (POL) due to which it had to make downward adjustment in its 2QFY18 revenues; please see POL's 2QFY18 result review note that we issued on Jan 24, 2018), and therefore cannot impose Windfall Levy on Oil (WLO) retrospectively. The company will contest the notification in the court of law by filing a petition in the next couple of days.

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