

Oil & Gas Development (OGDC)

2QFY18 EPS Rs4.6, +28% YoY (+16% QoQ); Cash dividend of Rs3/share
Above expectations

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Higher revenues support bottom-line growth

OGDC: Financial Highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Net Sales	51,998	41,516	25%	18%	95,960	81,081	18%
Royalty	5,530	4,521	22%	25%	9,962	8,828	13%
Operating Expenses	14,325	15,277	-6%	3%	28,280	28,356	0%
Transportation Charges	420	426	-2%	1%	835	836	0%
Gross profit	31,723	21,291	49%	26%	56,883	43,061	32%
Other Income	3,556	4,248	-16%	14%	6,667	9,309	-28%
Exploration Expenses	5,841	3,868	51%	283%	7,365	8,189	-10%
Administrative Expenses	904	925	-2%	-19%	2,016	1,653	22%
Finance Cost	428	412	4%	2%	847	815	4%
Workers fund	1,455	1,035	41%	13%	2,738	2,132	28%
Share of Profit in Associate	988	369	168%	116%	1,445	922	57%
Profit before Tax	27,640	19,668	41%	13%	52,029	40,503	28%
Taxation	7,978	4,291	86%	8%	15,357	10,494	46%
Profit after Tax	19,662	15,377	28%	16%	36,672	30,008	22%
EPS (Rs)	4.6	3.6			8.5	7.0	

Source: PSX, Topline Research

- OGDC reported earnings of Rs4.6/share in 2QFY18, up 28% YoY, better than estimates. The company also announced a better than expected cash dividend of Rs3/share. To note, the company was sitting on cash & equivalents of Rs146bn (~20% of its market capitalization), as of Sep 2017 filing.
- Despite lower oil production owing to notable decline in flows from Nashpa (down 28% YoY in 2QFY18), OGDC's net sales grew by 25%, thanks to 1) increase in Arab Light oil prices, up 25% and 2) PKR devaluation against the greenback. Though we await management clarity, we believe that OGDC has also booked Rs4.8bn revenue on account of pricing conversion of TAL block.

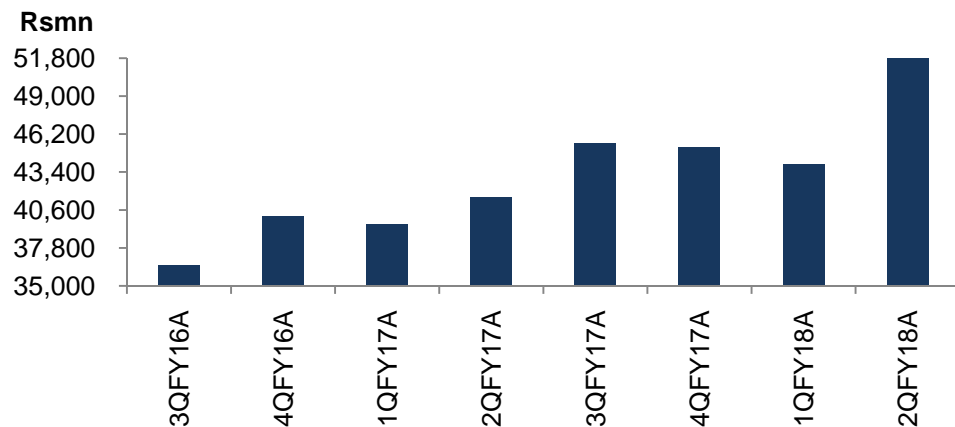
Higher revenues support bottom-line growth

- The company reported higher exploration charges, up 51% YoY during the outgoing quarter. We attribute this to three dry well costs that OGDC booked during the outgoing quarter.
- Share of profits from associates also supported the company's bottom-line, up 2.7x YoY in 2QFY18. OGDC's associate company i.e. Mari Petroleum (MARI) has shown considerable improvement in earnings on the back of dismantling of its gas price formula.
- While pretax profits of the company were up 41% YoY in 2QFY18, higher effective tax rate, up 7ppts to 29% dented net earnings.
- We flag 1) long-term volatility in international oil prices, 2) lower than expected hydrocarbon production and 3) significant exploration and development cost as key risks for OGDC.

OGDC: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	21.1	28.8	20.3	13.9	14.8
Earnings Growth	-6%	37%	-30%	-31%	6%
PE at Rs167.2	7.9	5.8	8.2	12.0	11.3
Dividend Yield	5%	6%	4%	3%	4%
ROE	28%	30%	19%	12%	12%
PBV	2.2	1.8	1.6	1.4	1.3

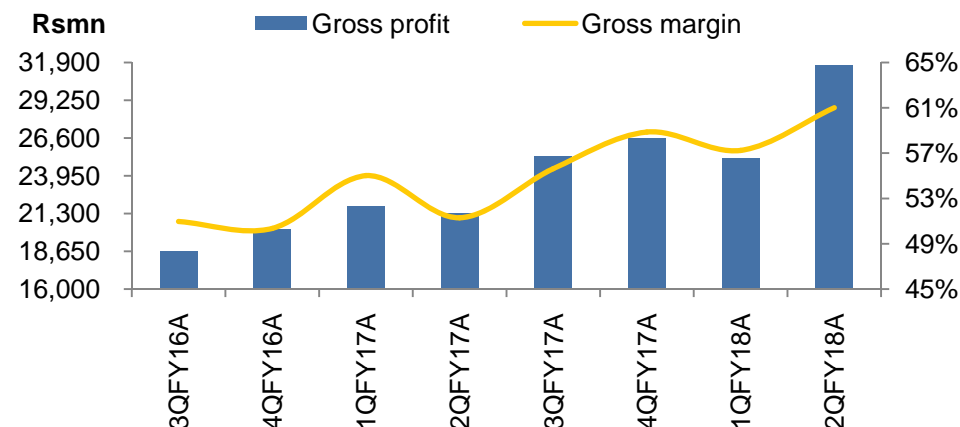
Source: Company Accounts, Topline Research

OGDC: Quarterly Sales



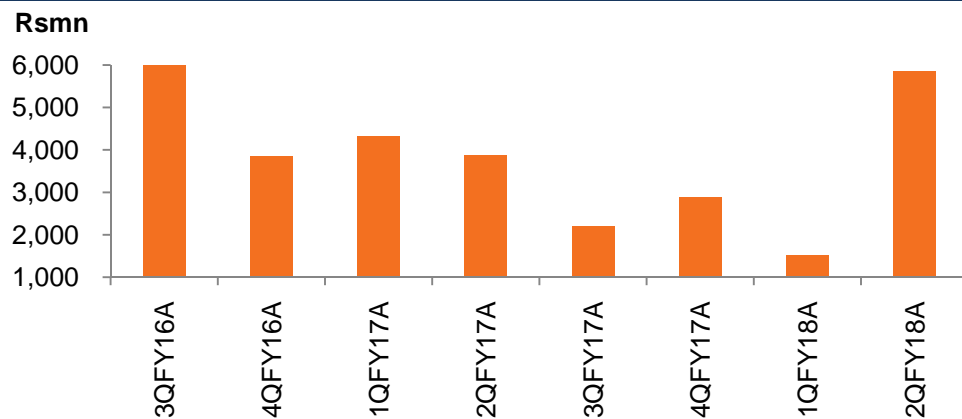
Source: Company Accounts, Topline Research

OGDC: Quarterly Gross Profit & Gross Margins



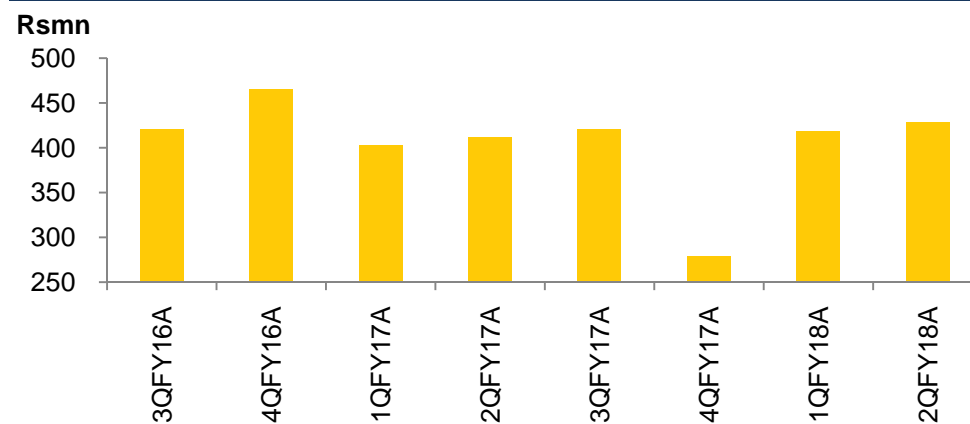
Source: Company Accounts, Topline Research

OGDC: Quarterly Exploration Costs



Source: Company Accounts, Topline Research

OGDC: Finance Cost



Source: Company Accounts, Topline Research

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