July 29, 2010

Pakistan Research

E&P | Detailed report

KSE closing 10,428 (+2.4pts)

OGDC: Pakistan's resource guardian … TP Rs 116.2 | Sell

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OGDC is in the news for various reasons but it is still 'eye catching' for foreign institutions who are taking exposure in the benchmark index via this company. However, among regional state E&Ps and local peers, OGDC yields relatively higher PE. Our leading PE for OGDC in FY10 & FY11 is 11.5x and 9.8x respectively. OGDC is overvalued, as per our financial model, yielding DCF price of Rs 116.2/share.

We give 'sell' signal based on our financial model and conservative assumptions employed in it. We would invite prospective investors to go through page 7 titled 'views and issues' to get a wider view.

- OGDC profile remains strong since it can be a source of capital mobilization or revenue engine for Government of Pakistan (GoP) given its huge national contribution such as 21% of gas and 56% of oil production as well as accounting of 27% control on total exploration acreage. It can also be source of huge sectored FDI given investments needed in many projects.
- Baluchistan province continues to offer untapped opportunities for instance *Kohlu.* It is a hindered gas trove treasure of 22tcf.
- We have assumed Qadirpur gas to contribute significantly i.e. 20% to OGDC's gross revenues in the wake of price adjustments, applicability of fewer discounts of 65% against HSFO prices and improved production of 600mmcf/d in FY11.
- We see some glaring successes for OGDC such as *Nashpa – Mela*, old field *Rajian*, MOL operated *Tal Block* as well as *Kunar* in Sindh.
- Let us say that incremental 6000 – 7000bopd oil production from these fields are factored into future benefit that company offers. However, incremental production from these fields may not be good enough to off-set massive depletion which is coming in most of the old fields.
- The realized prices chiefly hinge on Rupee Dollar parity given Pakistan's vulnerable exchange rates due to poor real sector performance. This, however, is a source of oil revenue growth.

Valuation matrix

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
EPS (Rs)	10.60	10.31	12.91	13.20	15.49	17.18	18.76
EPS growth %	-1%	-3%	25%	2%	17%	11%	9%
P/E (x)	9.30	9.10	5.70	11.54	9.84	8.87	8.12
CFS (Rs)	8.59	12.00	12.32	17.95	19.86	21.31	21.74
P/CFS (x)	11.48	7.82	5.98	8.49	7.67	7.15	7.01
BV/S (Rs)	24.86	25.67	29.34	36.03	46.52	58.20	70.46
P/BV (x)	3.97	3.65	2.51	4.23	3.28	2.62	2.16
DPS (Rs)	9.00	9.50	8.25	7.00	8.00	9.00	10.00
Dividend yield	9%	10%	11%	5%	5%	6%	7%
Payout Ratio	85%	92%	64%	53%	52%	52%	53%

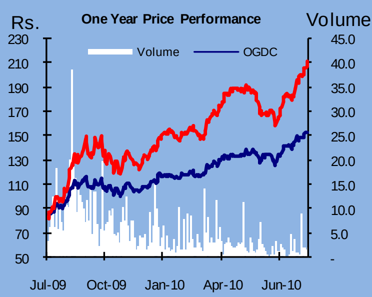
Source Standard Capital Research and www.scstrade.com search engine

OGDC Price Data

Closing Price (Rs.)	151.62
Market Cap (Rs bn)	652.1
Market Cap (USD bn)	7.6
Outstanding Shares (mn)	4,300
52-weeks high	153.0
52-weeks low	82.2
Avg. Daily volume (mn)	4.75
Face Value (Rs.)	10
1-year Beta	1.08

Based on 29nd July, 2010 closing

OGDC target price	**Rs116.2**
Premium	30%
FY10 PE multiple	11.5x
FY11 PE multiple	9.8x
FY10 P/BV multiple	4.2x
3-year exp. ROE	37%



Contents of the report…

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Chapter - 1: Earning triggers

Is it lower pricing discounts and exchange rate which is salvaging pride

Qadirpur gas pricing: two-way success

We believe 2QFY10 was significant pertaining to Qadirpur gas field, one of the biggest revenue earners for OGDC i.e. above 20% of total gross sales as per our estimation in FY11. OGRA, the regulator, increased provisional wellhead gas pricing of Qadirpur after a long long time to Rs 227.7 / mmbtu (though incremental benefit was just 7%).

The good thing for OGDC is that the price increase was effective for 2HFY10. We believe that any aggravation in Rupee – Dollar parity (as being envisaged in Pakistan's balance of payment support program document with IMF) would induce further increase in prices.

This again highlights thorny issue between OGDC and regulator on historic price setting of low caloric value Qadirpur gas field. As reported earlier, OGDC is at the verge of revised discount table for wellhead price linked with international HSFO price whose capping is anticipated to go above US$ 400/ton.

Qadirpur production & pricing assumption

	FY09	FY10E	FY11E
75% working interest	*estimated working*		
(heating value - in btu/cu.feet)	*890*	*890*	*890*
Quantity (mmcf) OGDC Share	151,944	136,875	166,988
Quantity (mmcf/d) Total Field*	555	**500**	610
Quantity (m btu)	135,230,318	68,437,500	148,618,875
Price after Discount	161	228	252
Approximate Revenue (Rs mn)	21,772	15,590	37,389
Contribution in % of overall revenue mix	15%	10%	20%

*Production has declined to mere 475 mmcf/d during June 2010

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Given this situation we are compelled to take price assumption of Rs 252 / mmbtu for FY11 (thus contributing nearly 20% to overall gross revenue of the company).

This price assumption is anticipated keeping in mind application of above 65% discount over capped HSFO price (even though application of lower discount such as 50% would mean greater benefit in shape of wellhead price and resultant profits for the company).

Among new successes...Nashpa oil is one of the best

OGDC has recent successes in exploratory well Sheikhan-1 (at Kohat Block) that flowed gas in the vicinity of 15mmcf/d. We see a good impact going forward. Among development wells, we see Rajian-5 another wild card for oil.

During FY10, OGDC had a good discovery of some Nashpa fields with potential of 7200bopd of oil and 45 mmcf/d of gas flow. Company considers discoveries in Nashpa (NWFP) as very significant. From all accounts, Nashpa's oil production shall be around 10% of overall oil production. As per our discussion with geologists, Nashpa Block itself has got good potential. Mela field is in Nashpa Block and OGDC is drilling 3rd well 'Mela-3' in Mela field. As per company's available transcript of February'10, Nashpa initially heralds 30.5bcf gas and 10.4mbbl of oil. However, as per our detailed discussion with eminent geologists, the recoverable reserves estimations seem 81bcf gas and 24mbbl of oil, which we feel is a trigger.

OGDC oil and gas sales, our projections based on field data

		FY04	FY05	FY06	FY07	FY08	FY09	FY10F	FY12F	FY11F
Oil	bbl 000'	9,941	13,045	12,959	13,930	15,037	14,438	10,667	12,659	13,091
Inc/(dec)			31%	-1%	7%	8%	-4%	-26%	19%	3%
Gas	mmcf	297,224	345,949	344,164	344,032	358,868	364,036	446,088	518,951	555,376
Inc/(dec)			16%	-1%	0%	4%	1%	23%	16%	7%

Source: OGDC annual report, Energy Year Book 2009 & Standard Capital Research forcasting based on field data

Moreover, OGDC has recently found additional oil & gas in wells drilled at Rajian oil field, an old field with 100% stakes. Initially, as per newspaper reports, we will see a 100% increase in existing production levels of 1200bopd. Key thing is that four potential reservoirs (Khewra, Jutana, Torbra and Sakesaer) have been identified. The total production levels would now be 2400bopd (initial estimated recoverable reserves may be 8mnbbl). The positive impact on FY11 EPS is significant i.e. Re 0.19/share, as per our financial model.

Among regional peers, OGDC boast of a favorable success rate on drilling i.e. *1 : 2.36* in last five years (as per OGDC scribe). This holds good for foreign portfolio investors.

OGDC is well above industry in spudding wells

	Wells planned for FY10		Wells spudded			
	Exploratory	Develop.	Exploratory	Develop.	%age result	
OGDC	23	8	13	13	57%	163%
Others	25	44	13	29	52%	66%
Sum	*48*	*52*	*26*	*42*	54%	81%

Source: Geologists / PPIS numbers

Economic malaise i.e. aggravating exchange rate is a main model driver

We see most of the fields (be it operated or joint ventured) are at the verge of depletion whereas OGDC model is mainly derived from exacerbated Rupee Dollar parity and resultant impact on realized prices.

Given Pakistan's poor real sector growth and lack of great comparative advantage other than textiles, we do not see trade deficit to minimize in near future (FY10 prov. figure: US$ 15.33bn). This is despite the fact that foreign exchange reserves have swelled to US$16.7bn which is ostensibly backed by International Monetary Fund (IMF) balance of payment support program. However, extent of this foreign reserve may receive a hit when repayments would start in FY11.

We have assumed incremental Rupee Dollar parity, going forward in following years.

Realized prices | Key model assumptions

		FY05	FY06	FY07	FY08	FY09	FY10F*	FY11F	FY12F
Oil	bbl in US$	41.8	58.6	51.9	71.3	78.0	80.0	85.0	87.0
Gas	mmcf in US$	2.35	2.93	2.71	2.64	2.69	2.86	3.23	3.36

*OGDC transcript meeting in Feb 2010 illustraded a little lower avg. Realized prices

Standard Capital Research estimations

Chapter 2: OGDC valuation - DCF price Rs 116.2/sh

Discounted Cash Flows

Rs mn	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F	FY14F	FY15F
Net Income	45,604	44,337	55,540	56,764	66,605	73,891	80,677		
Add : Depreciation	2,978	3,130	3,306	3,650	4,062	4,528	5,050		
Add : Ammort. Of prod. & devel.	3,637	4,961	6,208	7,298	8,126	9,026	9,998		
Less : Capital expenditure	(16,445)	(18,347)	(25,072)	(17,323)	(19,396)	(21,473)	(23,553)		
:+/- Working capital changes	(1,288)	(3,458)	(8,439)	(13,604)	10,046	6,532	4,434		
Add : Net Borrowings									
Less : Principle Repayment	10.6	10.3	12.9	13.2	15.5	17.2	18.8		
Free cash flows to Equityholders	**34,497**	**30,634**	**31,556**	**36,798**	**69,458**	**72,521**	**76,624**	**80,456**	**84,478**
Free cash flow per share (Rs/sh)	8.02	7.12	7.34	8.56	16.15	16.86	17.82	18.71	19.64
							126.04		
	8.02	**7.12**	**7.34**	**8.56**	**16.15**	**16.86**	**143.86**	**18.71**	**19.64**

Fair value (Rs/sh) **$116.18**

Fair value matrix

Growth	Required rate of return: 16.7%	17.7%	**18.7%**	19.7%	20.7%
3.0%	128.0	119.3	111.6	104.7	98.7
4.0%	134.5	124.7	**116.2**	108.7	102.1
5.0%	142.0	131.0	121.5	113.2	106.0

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CAPM

Rf	12.7%
Market Risk Premium	**6.0%**
Beta	1.0
Re	18.70%
Growth	4.0%

10 year PIB yield has been taken as risk free rate ehereas terminal growth envisaged as 4% in commensurate **with Pakistan's GDP**

Peer comparison of state companies

Companies	x
ONGC.NS**	**6.0**
CLSZF.PK*	**28.4**
OGDC	**11.5**

*China Oil and Gas Group Ltd
**Oil and Natural Gas Corp. Ltd (Indian co)
Source in.reuters.com/finance and Standard Capital Research

Chapter – 3:

OGDC profile to remain strong in Pakistan's perspective

As per OGDC website, the company contributes 21% of country's total natural gas production and simultaneously 56% of oil production (on net basis as at Nov'2009). Quite interestingly, OGDC accounts to 46% of total balance recoverable oil reserves and also 35% recoverable gas reserves. It also accounts to 27% of total Pakistan exploration acreage (FY06: 33%).

We believe OGDC is providing best exposure to international investors given its strong hydrocarbon producer profile in Pakistan's perspective. At present OGDC's free float is influenced by international emerging market skewed international funds, ala *Asia Growth Fund.*

The question remains that GoP may use this to float convertible bonds ostensibly to raise money for its own treasury. GoP still controls majority of OGDC 'frozen' holdings which it can partly off-load to raise foreign exchange in order to help cash strapped finance ministry. Or else it can also be a source of foreign direct investment that has eluded Pakistan economy for two years due to global financial upheavals. We believe time is ripe for using OGDC and its production profile to generate resources. OGDC needs investment in many blocks from a 'super major'. Though the E&P sector in Pakistan receives highest amount of FDI i.e. US$654mn (FY09:US$658mn) as against any sector but still it is far too low.

The foreign portfolio holding, for the time being, we believe is a source of indirect help to keep Pakistani index afloat at a time when Pakistan remains a frontline state; Pakistan forces bravely fending off miscreants in the war on terror (OGDC is a major weighted index item i.e. it engulfs more than 22% of market capitalization). The idea is to give a pumped up view of the benchmark index, even though, Pakistan is resolute in war against terror and a major US ally, but real economy suffers due to host of factors (war on terror alone had costs Pakistan to suffer economically as colossal sum of US$ 43bn estimated by Pakistani foreign minister).

OGDC chronology of events	
Nov' 2003	GoP divested 5% shareholding via IPO
Dec'2006	GoP divested 10% via GDR at LSE
Aug' 2009	GoP planned to give 10% shares to employees under BISP

Source OGDC website

But here at local bourse, OGDC script, from our perspective, is yielding a high PE range of 10.0x ~ 11.5x. Local institutions are suspicious of high PE range when they see Qadirpur gas production fluctuation and company management infighting yet share has become 'eye catching' for few foreign portfolio investors. Local institutions enviously saw OGDC scaling heights by 80% at the behest of foreign funds i.e. enormously outperforming benchmark index KSE-100 that gained 35% in FY10. Most interestingly, it was the only blue chip that gained significantly alongwith FFBL. **Which mean that other blue chip underperformed due to political risk?**

Production profile

Oil	43,437bopd
Gas	976mmcf/d
LPG	339mn t/d

OGDC owns 7 drilling & 1 workover rigs also include 12 contractor rigs

June'10 production levels

Operated

Oil	37,477bopd
Gas	836mmcf/d

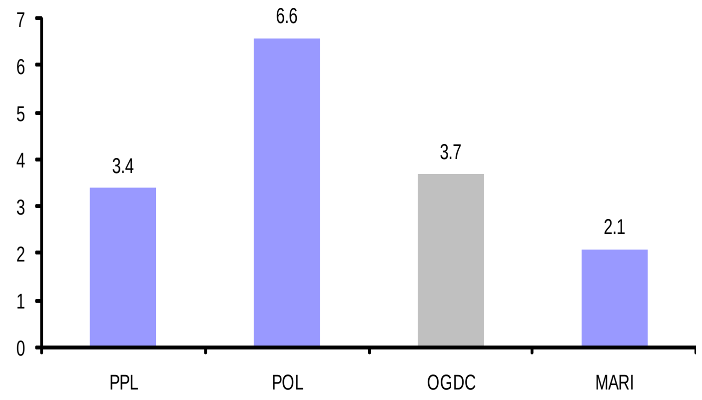
Non-operated JVs

Oil	6,290bopd
Gas	284mmcf/d

source OGDC website

Chapter – 4: Local peer snapshot… OGDC FY09

Peer - EV/EBITDA



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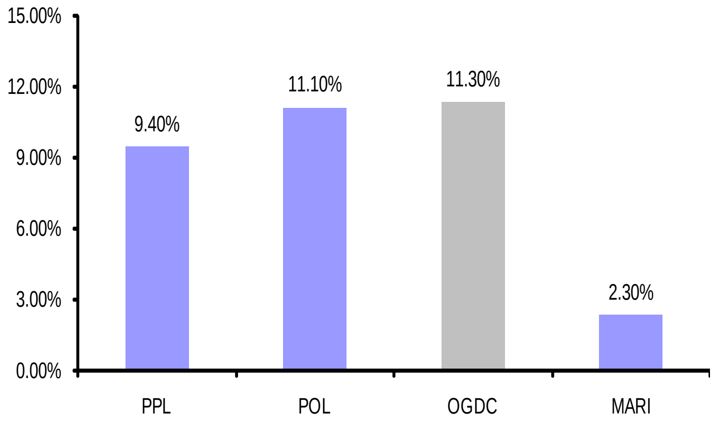
Peer - Dividend Yield



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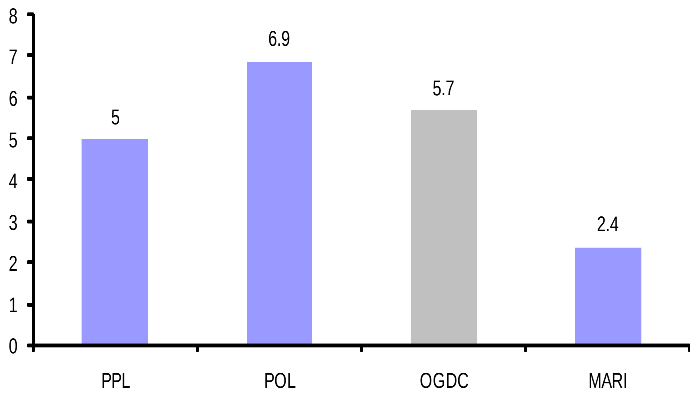
Peer - PER (x)



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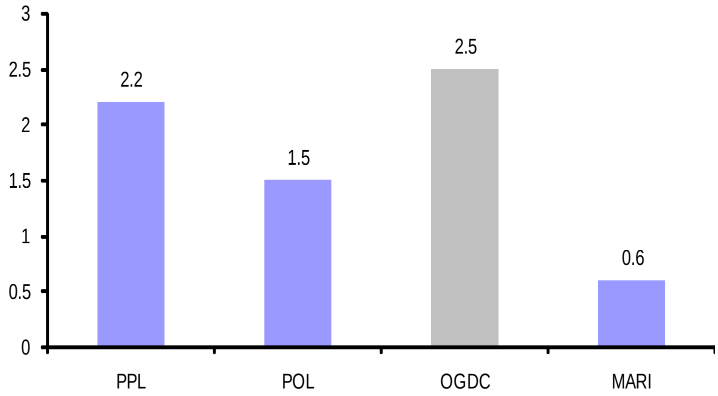
Peer - PBV (x)



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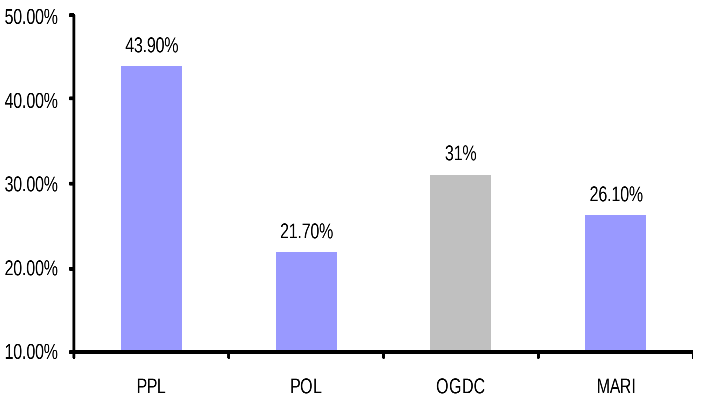
Peer - ROE



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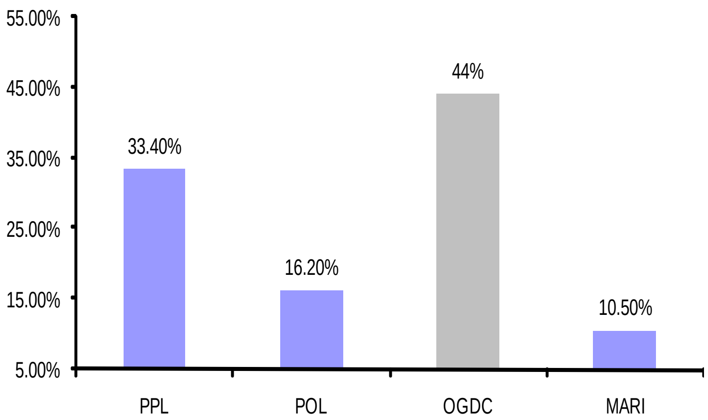
Peer - ROA



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Chapter – 5: Views and issues…. OGDC under scrutiny

OGDC is Pakistan's biggest *exploration & production* (E&P) company in terms of reserves, production and acreage. Despite the fact that Pakistan is mostly untapped based on its overall balance recoverable reserve profile, most of the existing fields are depleting at a fast pace. However, any dynamic policy from Pakistan's petroleum ministry may offset overall pace of flat production.

OGDC is one E&P that has ambitious exploration as well as expansion plans perused on various plateaus. Some of the success stories are emanating from structures such as Tal Block (Khyber Pakhtonkhua), Nashpa Block (Khyber Pakhtonkhua), old Rajian Block (Northern Punjab) and Sindh based Kunar & Pasakhi.

Pakistan's gas shortfalls are directly posing problems for the economy, especially textile units, gas fired power projects, urea manufacturers and possibly cement plants as well. The current shortfall can rise from nearly 1.0bcfd to 2.5bcfd in following years and hence aggravate energy consumption mix dynamics, in our opinion. Pakistan produces 3.7bcfd of natural gas (actual production shortens from 4.1bcfd due to transmission related leakages) and shortfall can exceed due to escalating demand.

Likewise, Pakistan produces only 65,246bopd and thus meets a whopping 80% of its oil needs through cost imports which aggravates balance of payments & exchange rate.

May oil numbers from key fields bopd

PK and Punjab (Northern region)			Sindh, Baluchistan		
Dakhni	1,652	100%	Zaur	1,126	49%
Chanda	4,000	72%	Bobi	1,909	100%
Mela	5,200	56.54%	Tando Alam	1,324	100%
Nashpa	2,603	56.54%	Thora	1,128	100%
Rajian	1,099	100%	Pasakhi-total	4,631	100%
Pindori	1,377	50%	Kunar	6,500	100%
Pariwali	973	0%	Sonu	1,564	100%
Manzalai	4,564	27.76%	Adam	1,268	0%

%working interest of OGDC

Some of the only 1000bopd fields in Pakistan as per May PPIS figures

Qadirpur production status provides life line to OGDC…..

At present Qadirpur gas field contributes 20% to overall OGDC's gross revenues by virtue of its 75% stakes. At present Qadirpur gas field is in the news given impending installation of fourteen compressors which could ostensibly raise production levels up to 600mmcfd instead of declining present levels of 480mmcfd (June 2010 reported PPIS numbers have drastically fallen down to 475mmcfd). The compressors supposedly increase gas pressure and it is expected that field may start yielding 600mmcfd from mid September (FY11). This we feel is make or break of OGDC revenue cake.

These compressors have been put together after taking spares from the Pirkoh field, it is stated, and some have been imported as well. However, any inordinate delay beyond September/ October may negatively impact on FY11 earning estimation of Rs 15.49/share and resultant discounted cash flow based fair value.

New fields adding life…

We have discussed about Nashpa field reserves. The Mela in Nashpa alone producing 5200bopd in June'10 (56.5% operated by OGDC). The numbers set to grow in FY11 (assumption of 7500bopd from Nashpa+Mela).

Pakistan's greatest story is however, Tal Block (Hungarian MOL is the operator) situated in Khyber Pakhtonkwa. The commencement of Manzalai CPF has heralded a new lease in OGDC with oil production increasing to 4564bopd (OGDC share is 27.76%).

Then there are further production additions from Mamikhel & Maramzai at Tal which adds to 2800bopd and also 40mmcf/d gas collectively. However, prospects look bright for every E&P on Tal Block (more so for small E&P Pakistan Oilfields (POL) due to low capital weight).

Do not forget Kunar in Sindh. The field is now gushing 6500bopd thus showing huge improvement in every year (adding 1000bopd y-o-y).

Kunar (Sindh) improvement

	FY06	FY07	FY08	FY09	FY10F	FY11F
Oil bopd	4,379	4,606	5,575	6,943	6,700	7,000

Source Energy Year Book 2009 + Standard Capital Research

Most of the old fields depleting….

Despite few good growth stories such as Tal, Nashpa, Rajian and Kunar, we see decline in production due to continuous depletion factor. Some of them are nearing end of reserve life as per *Energy Year Book 2009*.

Tight gas story - rhyme or reason

At present Pakistan's petroleum ministry is finding ways and means to explore tight gas. However, tight gas pricing would be set keeping in mind high risks and expenditure involved. As per our discussion with eminent geologists, tight gas is difficult to access because of the nature of rock and sands surrounding the deposits.

The gas is difficult to extract than normal exploration modes of natural gas; hence as such companies generally require large financial incentives such as better pricing structure, to go for it. Several global oil and gas companies control significant tight gas reserves, but has also sunk many of their resources into learning about extracting tight gas let us say due to low permeability. Moreover, process also require other modes of extraction such as horizontal drilling which is again expensive (rarely employed in Pakistan by OGDC) and deviant from traditional modes such as vertical drilling.

Pricing gas fields - another concern…

Gas field pricing has always been an issue in Pakistan that has deterred investment prospects given rather lower rate of return for E&P companies. As per latest newspaper report filed in the backdrop of tight gas, present sale price of gas is US$2 to US$2.5/mmbtu.

Taking cue from the Petroleum Policy 2009, the average gas price will be around US$4.6/mmbtu. Seeing present international crude prices at US$72.8/bbl, the average price of tight gas is estimated at US$6.5/mmbtu. However, it would also a political decision a government in Pakistan would ever contemplate, to raise consumer gas prices in the backdrop of cascading subsidies of electricity at the behest of IMF backed balance of payment support program, which again is fuelling inflation and resultant lower productivity.

Circular debt – sloppy issue

OGDC had receivables piling under the garb of 'circular debt' engulfing Pakistan's energy sector whereby refineries and gas transmission companies became cash strapped due to non-payment from government white elephants such as WAPDA, PEPCO etc. In this vicious circle, due to non-payment, power producers are unable to pay to oil marketers such as PSO and PSO not paying to refineries.

OGDC's trade debt swelled to Rs62.5bn as at March31, 2010 and thus it can hit development work (spudding of wells) due to liquidity shortage. Company needs allocation for much needed ongoing expansion projects and also to pay dividend to shareholders (dividend yield squeezed from normal due to this saga).

Dividend payer to GoP (allocations may go down due to circular debt issue and also case of repatriation of profits to foreign countries)

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
DPS (Rs)	9.00	9.50	8.25	7.00	8.00	9.00	10.00
Dividend yield	9.1%	10.1%	11.2%	4.6%	5.3%	5.9%	6.6%
Payout Ratio	84.9%	92.2%	63.9%	53.0%	51.7%	52.4%	53.3%

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Consequently, trade payables also swelled to Rs30bn in 9M-FY10, which is inclusive of thorny *Royalty* head of Rs12bn, which again may cause anxiety among poor Baluchistan, the province which lives on royalty from fields.

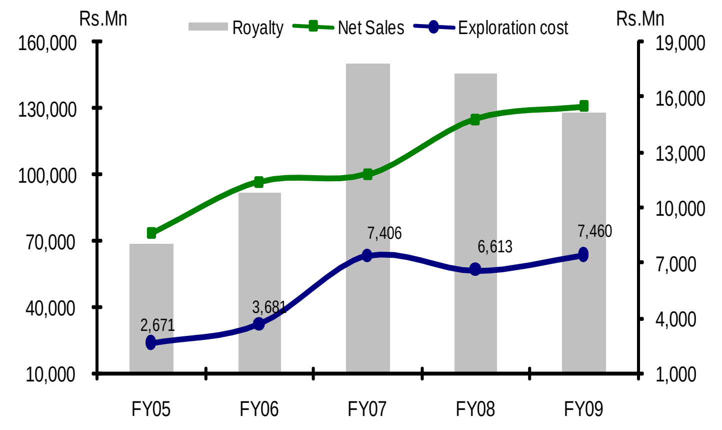
Also relating to that is the retrospective adjustment of Qadirpur gas field prices contemplated earlier in 2H-FY10; the amount of Rs8.7bn was booked as income and subsequent receivable to be paid by gas transmission company Sui Northern Gas Pipelines (SNGPL). Any other further reprieve by government in this form may only add to OGDC anxiety instead of gains since it would pile up as 'circular debt' baked receivables.

Baluchistan's Kohlu potential untapped…

Baluchistan is untapped. Potential in Baluchistan is hampered due to host of issues. For instance, the key block in Baluchistan is Kohlu, which sits with estimated 22tcf of gas reserves as reported in recent news and at present in the hands of OGDC. It is considered largest field in Baluchistan, and it can yield massive gains. Pakistan army has already quelled insurgency and government is adamant that OGDC should start exploration work. It would set off massive depletion of old Baluchistan field called Sui (PPL operated) whose reserve life is set to end 2017.

Chapter – 6: OGDC valuation ratios…

Sales vs Exploration Cost



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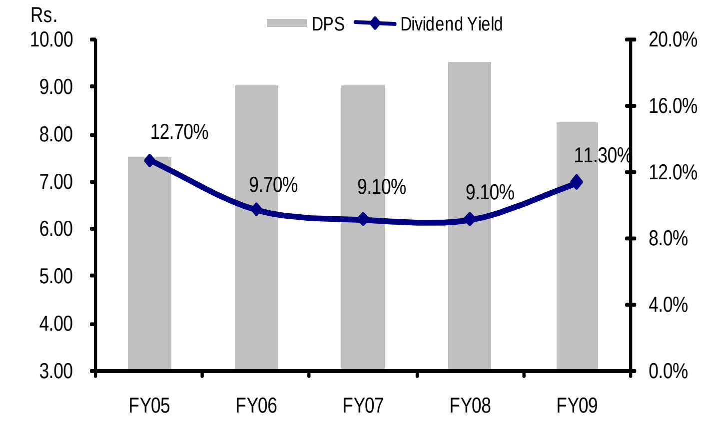
Payout Trend



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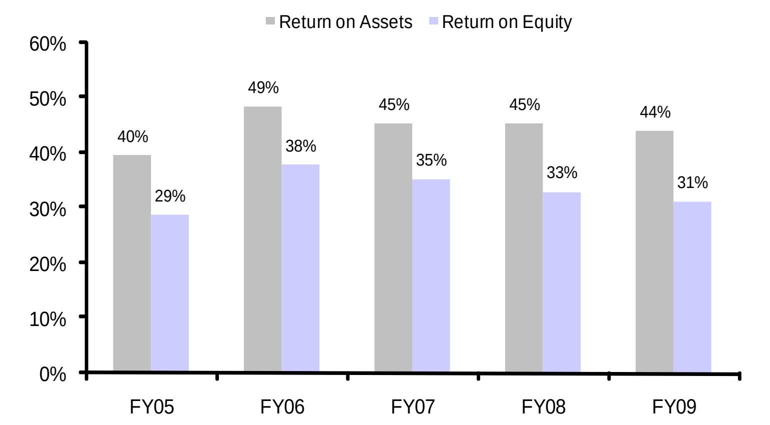
ROA vs ROE



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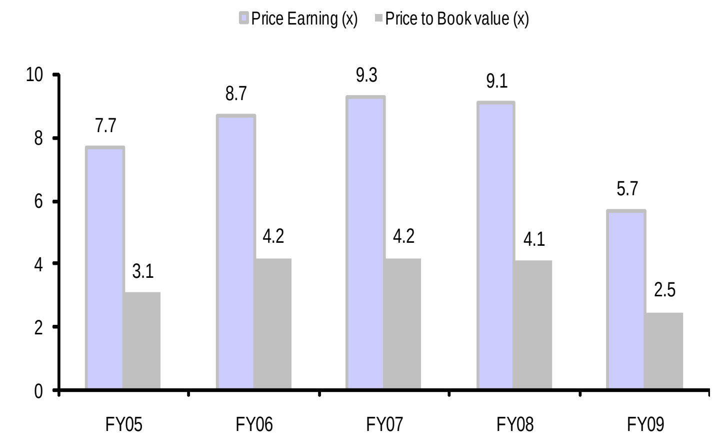
PER vs PBV



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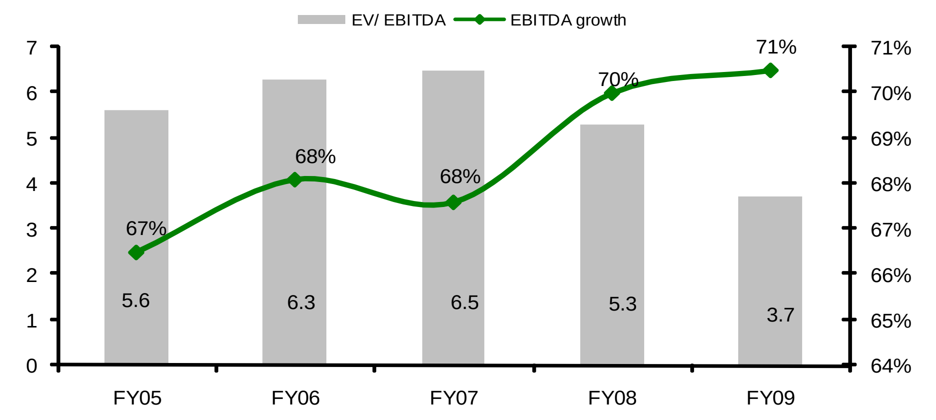
EBITDA growth trend



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Appendix

OGDC financials

Profit and loss account

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
Net Sales	100,261	125,908	130,830	144,560	164,962	181,501	197,502
Royalty	10,877	17,320	15,156	17,000	18,146	19,965	21,725
Operating Expenses	18,497	19,613	22,674	24,906	27,835	30,489	33,530
Exploration & Prospecting Expenditures	7,406	6,613	7,460	7,616	7,779	7,951	8,132
Transportation Charges	1,088	1,473	1,522	1,045	1,240	1,282	1,280
General & Admin. Expenses	1,285	1,248	1,333	1,698	1,844	2,007	2,196
Finance Cost	450	537	926	1,000	1,080	1,167	1,260
WPPF	3,214	4,387	4,259	4,984	5,828	6,454	7,036
Other Income	3,589	3,866	3,371	2,950	3,169	3,408	3,675
Profit before Taxation	61,032	78,307	80,928	89,330	104,470	115,678	126,119
Taxation	15,429	33,969	25,388	32,565	37,864	41,787	45,442
Profit after Taxation	**45,604**	**44,337**	**55,540**	**56,764**	**66,605**	**73,891**	**80,677**
Earnings per share	**10.60**	**10.31**	**12.91**	**13.20**	**15.49**	**17.18**	**18.76**
Dividend per share	**9.00**	**9.50**	**8.25**	**7.00**	**8.00**	**9.00**	**10.00**

Standard Capital Research

Balance Sheet

Rs mn	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
Property, Plant & Equipment	21,600	23,230	28,482	31,256	34,478	38,189	42,331
Development & Production Assets	28,750	36,808	49,058	52,252	54,926	57,600	60,202
Exploration & Evaluation Assets-Intangil	6,366	7,672	8,780	9,853	11,099	12,522	14,125
Other non-Current Assets	4,104	4,776	4,838	4,735	7,725	9,509	11,945
Total non-Current Assets	***60,819***	***72,486***	***91,158***	***98,095***	***108,227***	***117,820***	***128,603***
Current Assets	***68,519***	***79,824***	***86,835***	***108,575***	***146,211***	***189,531***	***234,288***
Total Assets	***129,338***	***152,308***	***177,992***	***206,670***	***254,438***	***307,351***	***362,892***
Share Capital	43,009	43,009	43,009	43,009	43,009	43,009	43,009
Capital Reserves	2,438	3,503	3,658	2,822	2,822	2,822	2,822
Un-appropriated Profit	55,169	63,902	79,502	108,311	153,411	203,647	256,368
Total Equity	***100,617***	***110,414***	***126,170***	***154,142***	***199,243***	***249,478***	***302,200***
Non-Current Liabilities	17,599	20,456	30,535	30,998	30,946	30,822	30,608
Current Liabilities	11,123	21,439	21,287	21,530	24,250	27,051	30,084
Total Liabilities	***28,722***	***41,894***	***51,822***	***52,528***	***55,195***	***57,873***	***60,692***
Total Liabilties & Equity	***129,338***	***152,308***	***177,992***	***206,670***	***254,438***	***307,351***	***362,892***

Standard Capital Research

Cash Flow Statement

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
Profit before Taxation	61,032	78,307	80,928	89,330	104,470	115,678	126,119
Depreciation	2,978	3,130	3,306	3,650	4,062	4,528	5,050
Amortization of development & producti	3,637	4,961	6,208	7,298	8,126	9,026	9,998
Royalty	10,877	17,320	15,156	17,000	18,146	19,965	21,725
Working Capital Changes:	(4,248)	(17,169)	(13,604)	10,046	6,532	4,434	(1,794)
Cash Generated From Operations	74,621	92,520	98,118	130,229	145,008	157,720	165,539
Net Cash From Operating Activities	***36,973***	***51,599***	***52,979***	***77,217***	***85,417***	***91,667***	***93,500***
Fixed Capital Expenditures	(16,445)	(18,347)	(25,072)	(17,323)	(19,396)	(21,473)	(23,553)
Ineterest Received	3,466	2,963	2,108	687	1,039	1,165	1,304
Net Cash Flows from Investing Activities	***(13,002)***	***(15,587)***	***(22,910)***	***(17,541)***	***(21,826)***	***(22,569)***	***(25,157)***
Dividends Paid	(38,154)	(41,473)	(39,406)	(29,887)	(21,505)	(23,655)	(27,956)
Net Cash Flows from Financing Activities	***(38,154)***	***(41,473)***	***(39,406)***	***(29,887)***	***(21,505)***	***(23,655)***	***(27,956)***
Change in Cash	(14,183)	(5,461)	(9,337)	29,789	42,086	45,443	40,387
Cash (beg)	32,177	23,738	18,276	8,940	38,729	80,815	126,259
Cash (end)	***17,994***	***18,276***	***8,940***	***38,729***	***80,815***	***126,259***	***166,646***

Standard Capital Research

OGDC in the guise of ratios

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
Operating profit margin	60.9%	63.3%	63.2%	63.8%	65.5%	66.0%	66.1%
Net profit margin	45.5%	35.2%	42.5%	39.3%	40.4%	40.7%	40.8%
Sales growth	3.6%	25.6%	3.9%	10.5%	14.1%	10.0%	8.8%
Earnings growth	-0.8%	-2.8%	25.3%	2.2%	17.3%	10.9%	9.2%
DPS Growth	0.0%	5.6%	-13.2%	-15.2%	14.3%	12.5%	11.1%
Dividend payout ratio	84.9%	92.2%	63.9%	53.0%	51.7%	52.4%	53.3%
Return on assets	37.3%	32.7%	34.1%	29.5%	28.9%	26.3%	24.1%
Return on equity	45.4%	41.0%	47.0%	40.5%	37.7%	32.9%	29.2%
Current Ratio (x)	12.09	3.52	4.08	5.04	6.03	7.01	7.79

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Valuation matrix

	FY07	FY08	FY09	FY10F	FY11F	FY12F	FY13F
EPS (Rs)	10.60	10.31	12.91	13.20	15.49	17.18	18.76
EPS growth %	-0.8%	-2.8%	25.3%	2.2%	17.3%	10.9%	9.2%
P/E (x)	9.30	9.10	5.70	11.54	9.84	8.87	8.12
CFS (Rs)	8.59	12.00	12.32	17.95	19.86	21.31	21.74
P/CFS (x)	11.48	7.82	5.98	8.49	7.67	7.15	7.01
BV/S (Rs)	24.86	25.67	29.34	36.03	46.52	58.20	70.46
P/BV (x)	3.97	3.65	2.51	4.23	3.28	2.62	2.16
DPS (Rs)	9.00	9.50	8.25	7.00	8.00	9.00	10.00
Dividend yield	9.1%	10.1%	11.2%	4.6%	5.3%	5.9%	6.6%
Payout Ratio	84.9%	92.2%	63.9%	53.0%	51.7%	52.4%	53.3%

Average prices taken on assigned years, see www.scstrade.com

Abbreviations...

OGRA	Oil and Gas Regulatory Authority
OGDC	Oil and Gas Development Company
E&P	Exploration and Production
Mmcf/d	one million cubic feet per day
Mmbtu	one million British thermal units
Bcfd	billion cubic feet per day
Bcf	billion cubic feet
Tcf	trillion cubic feet
Bopd	barrel of oil per day
FFBL	Fauji Fertilizer Bin Qasim
PPL	Pakistan Petroleum Ltd
MARI	Mari Gas
POL	Pakistan Oilfields
SNGPL	Sui Northern Gas Pipelines
GoP	Government of Pakistan
MOL	Hungarian Oil and Gas (MOL. Nyrt)
HSFO	High sulphur furnace oil
ONGC	Oil and Natural Gas Company
CLZSF	China Oil and Gas Group Ltd
DCF	Discounted cash flow
PE	Price earnings multiple
EPS	Earnings per share
DPS	Dividend per share
PBV	Price to book value multiple
EBITDA	Earnings before interest Depreciation and Amortization
FDI	Foreign Direct Investment
WAPDA	Water and Power Development Authority
PEPCO	Pakistan Electric Power Company
LPG	Liquified Petroleum Gas
PSO	Pakistan State Oil
IPO	Initial Public Offering
GDR	Global Depository Receipt
LSE	London Stock Exchange
BISP	Benazir Income Support Program

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