



KSE100 Closing 14228.77 (-1.72 points)

May 15, 2012

Pakistan Research

Oil & Gas | Co. update

## OGDC continues to be the best option in oil and gas Diasporas | PEG 0.17

### Investment summary...

In Pakistan Oil and Gas Development Co. (OGDC), despite all government shenanigans, offers lot of potential in hydrocarbon discoveries given its enormous profile as far as acreage is concerned. It is the only company wherein, despite government based set up, we find increasing oil and gas production growth profile. At present, investors should focus on FY13 earnings wherein we see PE of 7x. We believe OGDC is not a dividend play since it should be considered a growth play. We recommend BUY

### Production profile smoothens..

#### Company has recently issued some of its production numbers such as:

- crude production is 37,334bopd (nearly more than half of Pakistan's production profile)
- net gas production is 1,064 mmcf (Qadirpur, Sindh accounts to half of that chunk)
- LPG production of 183 tones per day and
- sulphur production of 66 tones per day (all these figures encompasses 9MFY12 period)

Just yesterday, we narrated Nashpa 3 which is in the discovery stage (we expect 4000bopd). OGDC continues to work on the field wherein it has already continuing exploratory efforts especially Nashpa. Earlier, there effort to locate new hydrocarbon reserves yielded two oil and gas discoveries at Naspha-2 (Naspha EL) in district Karak, KPK and at Balochistan based Zin X-1 (Zin EL) in district Dera Bugti.

#### As per our discussion with company scribe, OGDC is also adding two rigs, which we feel is a good omen.

OGDC narrates that ten new wells were spud including

- one exploratory well namely Uch Deep-1B,
- two appraisal wells Dhacharapur-2
- Zin-2 and
- seven development wells namely Rajian-6 (Punjab), Uch-19, Uch-27, Uch-32 (Baluchistan), Qadirpur-43 and Qadirpur-44 Extended Reach Wells (ERW) and Pasahki-8 (Sindh).

Out of the above, we are very hopeful that Qadipur's new endeavors shall create stirrer in overall gas profile and discovery should mature since we have been trumpeting this for quite awhile. Moreover, we have also said in 2010 that Rajian, which is an old structure, provides good opportunity for growth once new methods are employed to enhance production numbers.

**Overall, as per our model understanding, in OGDC, once should focus on developments in Nashpa, Qadirpur, Rajian and Kunnar numbers since they would enhance production profile of the company.**

### Financial operations and key model drivers in 9MFY12...

OGDC net sales increased to Rs 142 bn as against Rs 122.3 bn in the corresponding period last year given increase in average net realized price of crude oil that was sold at US\$84.46/bbl as against US\$67.47/bbl during previous year in that period under review. Moreover, company narrates that average net realized price for natural gas sold was Rs 222.44/mcf as against Rs 215.22/mcf during corresponding period last year. Likewise, net profit after tax increased to Rs 69bn compared to Rs 49.2bn in the previous year during 9MFY11 wherein EPS reached Rs 16.10.

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OGDC closing	Rs162.76/sh
High	Rs164.00
Low	Rs160.75
Chg	-0.21%
52 week hi	Rs172.22/sh
52 week low	Rs119.15/sh
Beta	1.28
Total # of sh.	4.30bn
Free float	630.60mn

**Best margins and dividend constraints...**

OGDC always yield best operating profit margin and net profit margin such as 64% and 49 %respectively. The dividend stream of OGDC has suffered since FY08 since, we feel, there is danger of flight of capital to foreign

investors, who had once taken a major chunk of the free float. Government, being largest shareholder, is mindful of the fact and meeting its fiscal requirement of dividend receipts from other entities just to stop massive flight of capital from Pakistan at a critical juncture of the economy. However, we see a third interim dividend of Rs 1.50/sh.

Given Pakistan's massive energy needs, we are against OGDC's bigger dividend payments since we feel OGDC is still in a growth stage as against PPL or POL (other companies in Pakistan) and should employ more resources to other rich hydrocarbon potentials such as Distt. Kohlu at Dera Bugti where there are massive gas reserves.

**Valuation: OGDC offers good opportunity given FY13 perspective...**

We signal our BUY call in OGDC, which is yielding FY12 PE of 7.6x and FY13 PE of 7.0x. We prefer OGDC over PPL.

**OGDC PEG is 0.17 which is too attractive.**

Fundamentals		Valuations	
Price Performance (1 month)	-1%	PE (Last Year)	11.02
Price Performance (3 months)	3%	Expected PE (Latest Quarter)	7.58
Price Performance (6 months)	4%	<b>PE (3 Year Average)</b>	8.05
Price Performance (12 months)	10%	<b>PEG (Latest)</b>	0.17
Beta		Book Value (Last Year)	46.87
		Book Value (Latest Quarter)	49.46
		EV/EBITDA	6.2
Dividends / Earnings		Growth	
Dividends (Latest Quarter)	Rs 1.5	Earnings Growth (Last Year)	7.35
Dividends (Last Year)	Rs 5.50	Book Value Growth (Last Year)	28.06
Dividend Yield	3.4%	Cash Flow (Last Year)	176.81
EPS (Uptill Latest Quarter)	16.1	EBITDA Growth (Last Year)	5.31
EPS (Last Year)	14.77		
Profitability			
Gross Profit Margin (Last Year)	66%		
Net Profit Margin (Last Year)	41%		
EBITDA Margin (Last Year)	71%		
Return On Assets (Last Year)	25%		
Return On Equity (Last Year)	32%		

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