Company Update

# Oil and Gas Development Co Ltd

## 1HFY12 Result Preview

February 21, 2012

### Earnings To Soar by 44%Y/Y

The Board of Directors of OGDC is set to announce 1HFY12 results on February, 23 2012. We expect OGDC to post PAT of PKR21.44bn (EPS: PKR4.98) for 2QFY12 against PAT of PKR16.71bn (EPS: PKR3.89) for the corresponding period in the preceding year. Cumulative profit for the 1HFY12 is estimated to soar by 37%Y/Y with PAT at PKR43.35bn (EPS: PKR10.08). Earnings accretion for 2QFY12 is also magnified against the same period in the preceding year due to reduced earnings from a deferred tax asset write-off, which caused a surge in tax expense. We estimate the board to declare a payout of PKR1.75/ share for the quarter.

### Higher WHP Mitigates Mixed Production Trend

Led by 18% higher realized oil prices to USD82.8/bbl and depreciation in PKR against greenback, acceleration in topline for 2QFY12 is curtailed to 11%Y/Y as retrospective revision in pricing of the Bobi field boosted the revenue during the corresponding period last year. Production of hydrocarbon depicts a mixed trend with oil contracting by 3% while gas flows expanding by 5% for 1HFY12. On a sequential basis, devaluation of PKR against greenback by 2.82% is expected to mitigate meager decline in production to keep the revenue stream sturdy.

### Muted Exploration Cost, Magnify Earnings

Exploration cost is expected to contract by 31%Y/Y and remain flat over the preceding quarter for 1QFY12 as drilling activity remained lull while no well is expected to be expensed out. The well Chak Naurang (OGDC stake: 85%) remains suspended since August 2011 with work-over job planned by the operator awaiting rig availability. OGDC has started drilling 1 exploratory well for FY12 taking the tally of total new drilling ventures for 1HFY12 to 7 against the target of 27 during FY12.

Average balance of cash and investments has more than doubled consequently amplifying the other income by 4x Y/Y and supplementing the core earnings growth for 1HFY12.

**Earnings Summary**

| (PKR in Mn) | 2QFY12E | 2QFY11A | Change | 1HFY12E | 1HFY11A | Change |
|---|---|---|---|---|---|---|
| Net Revenue | 46,163 | 41,639 | 11% | 90,849 | 81,090 | 12% |
| Op. Expenses | 7,386 | 6,437 | 15% | 14,616 | 12,792 | 14% |
| Royalty | 5,284 | 4,774 | 11% | 10,400 | 9,297 | 12% |
| Transportation | 480 | 581 | -17% | 916 | 979 | -6% |
| Exploration Cost | 697 | 1,004 | -31% | 1,363 | 3,536 | -61% |
| Admin Expenses | 494 | 359 | 38% | 912 | 867 | 5% |
| Operating Profit | 31,821 | 28,483 | 12% | 62,643 | 53,619 | 17% |
| Other Income | 2,174 | 312 | 596% | 4,477 | 919 | 387% |
| Other Charges | 1,671 | 1,423 | 17% | 3,307 | 2,693 | 23% |
| EBT | 31,934 | 27,033 | 18% | 63,031 | 51,171 | 23% |
| Taxation | 10,499 | 12,145 | -14% | 19,682 | 19,572 | 1% |
| PAT | 21,435 | 14,889 | 44% | 43,350 | 31,598 | 37% |
| EPS | 4.98 | 3.46 | | 10.08 | 7.35 | |
| DPS | 1.75 | - | | 3.25 | 1.50 | |

*Source: Company Accounts & HMFS Research*

Note: Please refer to the last page for Analyst Certification and other important disclosures.

**Market Data**

| | |
|---|---|
| KATS Code : | OGDC |
| Current Price (PKR) : | 163.66 |
| 52 Week Hi (PKR) : | 165.99 |
| 52 Week Low (PKR) : | 120.29 |
| Avg Turnover : | 0.75mn |
| Free Float : | 15% |
| Share in Issues (PKR) : | 4,300.93mn |
| Market Capitalization (PKR) : | 703.89bn |

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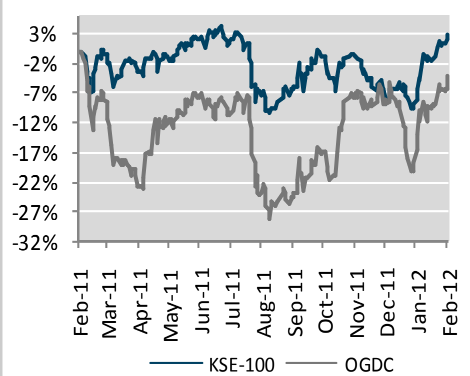
Relative Performance




*Source: HMFS Research*

### What's in Store for 2HFY12

The latter half of FY12 is expected to be a better half for local E&Ps especially OGDC with diversified block portfolio backed by higher realized wellhead price on one hand and enhanced flows from major tie-in on the other hand. The Arabian gulf light oil prices depicts uptrend averaging USD115/bbl since the beginning of CY12 complemented by uptick in gas WHP for 2HFY12 by 4%-9%H/H. We highlight incremental revenue from linkup of major discoveries and developmental projects including Makori East 1 (End Feb 2012), Kunnar (Mid Jan 2012), Nashpa 2 (End Dec 2011) and Manzalai-9 as key triggers.

### Investment Perspective

We have a ***Neutral*** stance on the scrip with a Dec '12 target price PKR161/share as it trades on a premium of 1.0% above our target price. After recent aggressive price action, the stock is trading at a leading PER of 7.69x, and offering a dividend yield of 4.8%.

## Analyst Certificate

The research analyst denoted AC on the cover of the report on with the name of analyst who has written the report. The analysis and views express in this report exclusively reflect his/her personal views about the subject, company or security. Furthermore his/her compensation was, is or will not be directly related to the recommendation or views articulated in this report. The information provided in this report is based on information available to the analyst and in accordance with best of his/her knowledge.

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