

# 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.

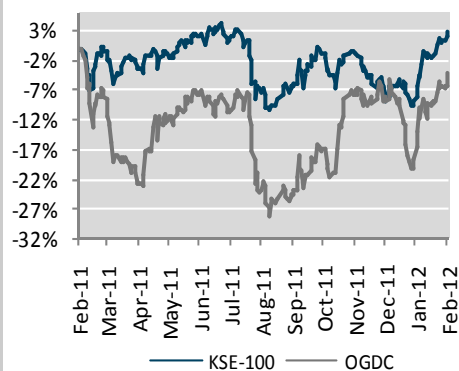
### Market Data

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%<sup>H/H</sup>. 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

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