Oil & Gas Development Company Ltd. (OGDC.PA)

Result Preview: 3QFY22 EPS expected to clock-in at PKR 9.32/share, Up by 66% YoY

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- OGDC is scheduled to announce its 3QFY22 results on 28 April 2022. Wherein, we expect the company to post PAT of PKR 40.1 bn (EPS: PKR 9.32/share) for 3QFY22 up by 66%YoY (+14%QoQ) against PKR 24.12 bn (EPS: PKR 5.61/share) SPLY. For 9MFY22, we expect that company to post PAT of PKR 109 bn (EPS: PKR 25.33/share) up by 64% YoY against PAT of PKR 66.43 bn (EPS: PKR 15.45/share) SPLY.
- The expected surge in earnings is primarily due to hike in Crude oil (Arab Lite) prices by 54% YoY, which remained on average US$88.79/ton during 3QFY22 against US $57.62/ton SPLY, surge in well head gas prices; coupled with favorable USD-PKR Parity (12% YoY averaging PKR 177.75/USD).
- Our estimation suggests topline to be increased by 40%YoY (PKR 91.3 bn against PKR 65.4 bn). Moreover, on quarter basis OGDC is likely to post surge in earnings (+15% QoQ) on the back of higher oil and gas production during 3QFY22; hike in oil/gas prices by 18%/15% QoQ, along with USD-PKR devaluation by 2%QoQ.
- The cost of sales is expected to surge by 39%YoY, to be recorded at PKR 33.83 bn as against PKR 24.34 bn, on account of surge in royalty/operating expenses by 42%/38% YoY during 3QFY22. Moreover; exploration expenditure is expected to increase by 7% YoY to PKR 5.99 bn, as against PKR 5.6 bn SPLY.
- We expect normalized gross margins of 63% during 3QFY22. Moreover, the company's gross profit is expected to surge by 40%YoY to be recorded at PKR 57.4 bn during 3QFY22 vs PKR 41.06 bn SPLY.
- Moreover, it is expected that other income would have positive impact on bottom-line, up by 4.64x due to exchange gains on account of currency devaluation.

PKR MN	3QFY22E	3QFY21A	YoY	2QFY22A	QoQ	9MFY22	9MFY21	YoY
Net Sales	91,268	65,402	40%	79,633	15%	242,431	179,562	35%
Royalty	(10,358)	(7,271)	42%	(8,792)	18%	(27,393)	(20,174)	36%
Operating expense	(22,817)	(16,566)	38%	(17,794)	28%	(57,186)	(50,254)	14%
Cost of Sales	(33,828)	(24,338)	39%	(27,241)	24%	(86,290)	(71,763)	20%
Gross Profit	**57,439**	**41,064**	**40%**	**52,391**	**10%**	**156,141**	**107,799**	**45%**
Other Income	9,176	1,627	464%	10,359	-11%	30,413	5,562	447%
Exploration & prospecting	(5,993)	(5,587)	7%	(4,610)	30%	(12,885)	(10,809)	19%
General & admin	(1,695)	(1,306)	30%	(993)	71%	(3,829)	(3,419)	12%
Finance cost	(908)	(534)	70%	(578)	57%	(2,050)	(1,680)	22%
PBT	**57,252**	**34,823**	**64%**	**52,902**	**8%**	**162,423**	**97,018**	**67%**
Tax	(17,175)	(10,703)	60%	(17,649)	-3%	(53,464)	(30,588)	75%
PAT	**40,076**	**24,121**	**66%**	**35,253**	**14%**	**108,959**	**66,430**	**64%**
EPS	**9.32**	**5.61**		**8.20**		**25.33**	**15.45**	
Gross Margin	63%	63%		66%		64%	60%	
Net Profit Margin	44%	37%		44%		45%	37%	

Source: Company Accounts, WE Research

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Potential to target price	
Buy Upside	More than +15% from last closing price
HOLD	In between -15% and +15% from last closing price
SELL	Less than -15% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk