



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108
www.jamapunji.pk

Today's Daily

■ OGDC: On the quest to add more

Re-initiating coverage on OGDC with a TP of PkR190/sh, supported by upside potential from various avenues including: 1) series of development facilities (Nashpa-Mela, KPD-TAY II) nearing completion aiding in higher hydrocarbon production going forward (Oil/Gas production for FY18E at 16.2mnbbbls/442BCF vs. 15.9mnbbbls/434BCF in FY17), 2) renewed focus on exploration as security risks alleviate specially in KPK and, 3) stable international crude prices (~US\$45-55/bbl) where our long-term oil price is set at US\$55/bbl. Alongside this, we also mention that the company has signed supplemental agreements with GoP for the conversion of PCAs to the latest PP12 for Mamikhel, Maramzai and Makori East fields. That said, OGDC remains mired in circular debt (9MFY17 receivables: PkR121bn vs. FY16: PkR111bn), where we highlight the prominence of near term catalysts overshadowing systemic concerns. The stock has plunged ~12%CYTD creating space for 30% upside to our NAV based TP. Our forecast for FY17E/18F EPS stands at PkR14.73/18.55 with a dividend yield of 3.08%/3.77%. BUY!

KSE100 - Index

Current 40,958.65
Previous 41,389.99
Chg. -1.04%

Mkt Cap. (PkRbn/US\$bn)

Current 8,690 / 82.45
Previous 8,690 / 82.45
Chg. 0.00%

Daily Turnover (mn)

Current 147.82
Previous 147.82
Chg. 0.0%

Value Traded (PkRmn/US\$m)

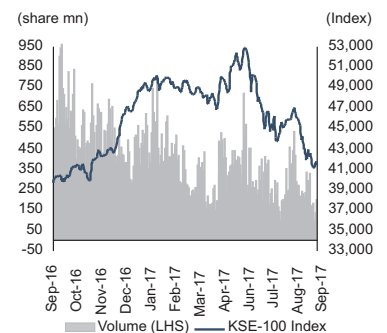
Current 8,614 / 81.73
Previous 8,614 / 81.73
Chg. 0.0%

AKD Daily

Friday, Sep 08, 2017

News and Views

- The Executive Board of the National Accountability Bureau (NAB) has approved filing of four references against former Prime Minister Nawaz Sharif and his family members -- Hassan Nawaz, Hussain Nawaz, Maryam Nawaz, Capt (ret) Muhammad Safdar and Finance Minister Senator Ishaq Dar-- in the accountability courts in line of the verdict of the Supreme Court of Jul'28 in the Panama case.
- The Drug Regulatory Authority of Pakistan is scheduled to hold a meeting today (Friday) to increase the prices of around 10,000 medicines as per DRAP pricing policy, 2015.
- As per recent data released by SBP, country's total foreign exchange reserves increased 1.93%WoW to US\$20.837bn during the last week ended Sep 01'17. The foreign exchange reserves held by the central bank rose US\$338mn to US\$14.681bn, while commercial banks' reserves also inched up to US\$5.705bn.



M Daniyal Kanani

daniyal.kanani@akdsecurities.net

111-253-111 Ext:603

Important disclosures, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2017 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.

Our research is also available on ResearchPool (<https://www.researchpool.com/provider/akd-securities>) research@akdsecurities.net | www.akdsecurities.net



OGDC: On the quest to add more

Re-initiating coverage on OGDC with a TP of PkR190/sh, supported by upside potential from various avenues including: 1) series of development facilities (Nashpa-Mela, KPD-TAY II) nearing completion aiding in higher hydrocarbon production going forward (Oil/Gas production for FY18E at 16.2mnbbbls/442BCF vs. 15.9mnbbbls/434BCF in FY17), 2) renewed focus on exploration as security risks alleviate specially in KPK and, 3) stable international crude prices (~US\$45-55/bbl) where our long-term oil price is set at US\$55/bbl. Alongside this, we also mention that the company has signed supplemental agreements with GoP for the conversion of PCAs to the latest PP12 for Mamikhel, Maramzai and Makori East fields. That said, OGDC remains mired in circular debt (9MFY17 receivables: PkR121bn vs. FY16: PkR111bn), where we highlight the prominence of near term catalysts overshadowing systemic concerns. The stock has plunged ~12%CYTD creating space for 30% upside to our NAV based TP. Our forecast for FY17E/18F EPS stands at PkR14.73/18.55 with a dividend yield of 3.08%/3.77%. BUY!

Successful developmental projects: Over the past 4 years, OGDC has successfully commissioned processing plants and other facilities at various fields, including phase I and II at Sinjhor, installation of compression plants at Qadirpur and Pirkoh, pre-commissioning of phase II facilities at KPD-TAY along with the commencement of production from Maru-reti and Jakhro fields with an outlay of over PkR180bn. Going forward, the projects are cumulatively expected to ramp up the oil production by more than 5kbpd/150MMCFD of oil/natural gas, effectively countering the production decline from its mature fields (Dakhni, Toot and Bobi). We foresee the company's oil production to jump to 16.2mnbbbls in FY18E vs 15.9mnbbbls in FY17, while its Natural gas production is expected to flow in at 442BCF in FY18E vs. 434BCF in FY17. Additionally, the company is expected to further capex outlay for the establishment of processing plants at Thal, Bitrism, Zin and adjoining areas. Recent exploration efforts in these areas have been successful and the existing infrastructure is lacking requisite capabilities for the transportation of newly discovered hydrocarbons.

Focus on exploration: OGDC has been on an aggressive quest for hydrocarbons as evident by its prospecting expenditure rising from PkR7.0bn in FY14 to PkR9.6bn in FY16 and our expectations of above ~PkR9bn in FY17E as well. Moreover, it has acquired more than 5000kms of 2D seismic data each in the past couple of years, the most since FY09. Reports indicate that geological operations have been conducted in various blocks in KPK, highlighting the immense potential of the area largely overlooked due to security concerns. As the security situation cools, a rich find can substantially boost the earnings of the company. To recap, all exploratory



efforts after Aug-12 (if successful) shall entail the pricing of PP12, which has the most lucrative well head gas prices out of all prior policies.

Stability in Intl oil prices: Post-OPEC meeting in Nov'16, oil price has been hovering in the range of US\$45-55/bbl despite looming threats from the US shale producers and resumption of Libyan oil production. This has helped the company maintain a healthy top-line as the company generates ~35-40% of its revenues from oil. More importantly, this has kept well head gas prices in check which include the average 6 month oil prices in its calculations.

Key Risks: Risks to our investment thesis arise from: 1) a sharp sustained drop in oil prices which can adversely impact its revenue stream, 2) the recording of dry wells which can erode its profitability as the company embarks upon heavy exploration program, and 3) PkR depreciation can be a positive trigger as its top-line is US\$ denominated.

Investment perspective: With the upcoming commissioning of Nashpa-Mela and KPD-TAY II development facilities, the company is expected to raise its output of oil and gas by ~825bpd and 23MMCFD of gas in FY18E net of expected declines from mature fields. Moreover, stepping into the less explored areas of Balochistan and KPK can provide a significant boost to the company's bottom-line as prior forays into these zones have unveiled some the country's largest reservoirs of gas and oil (Sui and Tal for instance). Keeping upside avenues in the spotlight, we issue a BUY call on the stock with a TP of PkR190/sh providing 30% gain from the last close.



OGDC: Valuations

(Year End Jun-30)	FY14A	FY15A	FY16A	FY17E	FY18F
EPS (PkR)	28.81	20.29	13.94	14.72	18.55
EPS Growth	36.5%	-29.6%	-31.3%	5.5%	26.1%
PER (x)	5.06	7.19	10.46	9.91	7.86
BVS (PkR)	92.00	102.89	111.29	121.50	134.55
P/BVS(x)	1.58	1.42	1.31	1.20	1.08
CFS (PkR)	22.02	21.17	14.40	15.93	21.67
P/CFS (x)	6.62	6.89	10.13	9.15	6.73
ROE	34.5%	20.8%	13.0%	12.6%	14.5%
ROA	27.2%	16.6%	10.5%	10.4%	12.1%
DPS (PkR)	9.25	7.75	4.25	4.50	5.50
Dividend yield	6.3%	5.3%	2.9%	3.1%	3.8%
Payout Ratio	32.1%	38.2%	30.5%	30.6%	29.6%

Source: Co. Reports & AKD Research

OGDC: Income Statement

(PkR mn)	FY14A	FY15A	FY16A	FY17E	FY18F
Net sales	257,014	210,625	162,867	170,009	202,442
Cost of sales	80,941	78,658	74,977	77,927	79,489
Gross profit	176,073	131,967	87,890	92,082	122,953
Operating Expenses	11,688	15,936	18,319	16,453	16,730
Operating Profit	164,385	116,031	69,571	75,629	106,222
Financial charges	2,204	2,550	1,718	1,648	1,811
WPPF	9,071	6,686	4,237	4,588	6,034
Other Income - net	19,240	20,230	16,892	17,802	15,606
Profit before tax	172,350	127,026	80,507	87,196	113,984
Taxation	48,435	39,776	20,537	23,899	34,195
Net Profit	123,915	87,249	59,971	63,297	79,789

Source: Co. Reports & AKD Research

OGDC: Balance Sheet

(PkRmn)	FY14A	FY15A	FY16A	FY17E	FY18F
Current assets	194,160	209,529	224,051	255,779	280,472
Long term assets	302,073	344,263	365,515	376,403	405,269
Total assets	496,233	553,791	589,566	632,182	685,741
Current Liabilities	48,046	61,902	58,969	57,393	54,569
Long-term Loans	52,516	49,368	51,964	52,214	52,464
Total Liabilities	100,561	111,270	110,933	109,607	107,033
Paid up capital	43,009	43,009	43,009	43,009	43,009
Reserves & Unappropriated	352,662	399,512	435,623	479,566	535,699
Total Equity	395,671	442,521	478,633	522,575	578,708
Total equity and liabilities	496,233	553,791	589,566	632,182	685,741

Source: Co. Reports & AKD Research

OGDC: Cash flows

(PkR mn)	FY14A	FY15A	FY16A	FY17E	FY18F
Cashflow from operations	94,717	91,068	61,926	68,505	93,192
Cashflow from Inv. Activities	(43,578)	(37,371)	(45,761)	(36,265)	(55,397)
Cashflow from Fin. Activities	(50,997)	(43,547)	(21,264)	(19,104)	(23,405)
Net change in cash	142	10,151	(5,099)	13,136	14,390
Beginning cash balance	2,710	2,852	13,003	7,904	21,040
Ending cash balance	2,852	13,003	7,904	21,040	35,430

Source: Co. Reports & AKD Research



Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.