

OGDC has announced its 2QFY20 result where it posted profit after tax of Rs53.2bn (EPS: Rs12.37) in 6MFY20 as compared to profit after tax of Rs56.8bn (EPS: Rs13.20) in same period last year, down by 6.3% YoY.

The company has posted the revenue of Rs133bn against Rs127bn in SPLY, recording a growth of 5.2% YoY. We note that this growth is attributed to the depreciation of PKR against USD during the period.

Gross margin has slightly been expanded to 65.1% in 6MFY20 as compared to 64.8% in 6MFY19 owing to the lower growth in operating cost which has increased by mere 3.1% YoY.

Other income has declined by 33.1% YoY to Rs7.9bn in 6MFY20 as compared to Rs11.9bn during SPLY owing to lower exchange gains.

The increase in exploration and admin costs has mainly caused the earnings to contract which increased by 132.6% YoY and 57.8% YoY respectively. Furthermore, finance cost has been increased by 80.8% YoY on account of higher provision for decommissioning cost.

OGDC is currently trading at FY20E PE of 5.02x. Furthermore, the script is trading at a FY20E P/B of 0.77x which offers a discount of 26% relative to its historical 5-year average of 1.04x. We maintain our **BUY** stance on the script with a Reserves based Dec-20 TP of Rs 205 which provides an upside potential of 64%. Furthermore, it also provides a dividend yield of 7% which makes a total return of 71%.

Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	67,237	65,099	3.3% ▲	133,441	126,898	5.2% ▲
Operating Cost	-15,674	-14,773	6.1% ▲	-30,560	-29,634	3.1% ▲
Gross Profit	43,662	42,558	2.6% ▲	86,853	82,236	5.6% ▲
Other Income	5,082	7,752	34.4% ▼	7,927	11,851	33.1% ▼
Exploration Cost	-6,463	-2,520	156.4% ▲	-10,425	-4,482	132.6% ▲
Administrative Expenses	-1,776	-791	124.6% ▲	-2,819	-1,787	57.8% ▲
Finance costs	-755	-419	80.3% ▲	-1,500	-830	80.8% ▲
Profit Before Taxation	39,148	45,376	13.7% ▼	78,836	84,739	7.0% ▼
Taxation	-13,280	-15,354	13.5% ▼	-25,652	-27,983	8.3% ▼
Profit After Taxation	25,868	30,021	13.8% ▼	53,184	56,756	6.3% ▼
Earnings Per Share	6.01	6.98	13.8% ▼	12.37	13.20	6.3% ▼
Dividend	1.75	3.00		4.25	5.75	
Bonus	0%	0%		0%	0%	

Closing Period: 14 Apr 20 - 20 Apr 20

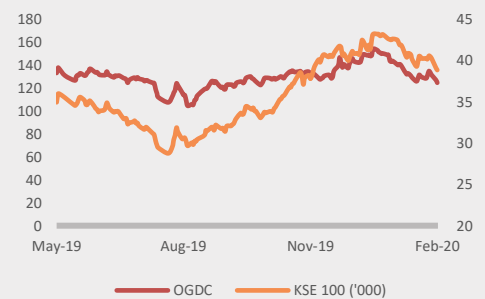
	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Gross Margin	64.9%	65.4%	0.4% ▼	65.1%	64.8%	0.3% ▲
Other Income to Sales	7.6%	11.9%	4.3% ▼	5.9%	9.3%	.4% ▼
Exploration Cost to Sales	-9.6%	-3.9%	5.7% ▲	-7.8%	-3.5%	4.3% ▲
Admin Cost to Sales	-2.6%	-1.2%	1.4% ▲	-2.1%	-1.4%	0.7% ▲
Effective Taxation	-33.9%	-33.8%	0.1% ▲	-32.5%	-33.0%	0.5% ▼
Net Margin	38.5%	46.1%	7.6% ▼	39.9%	44.7%	4.9% ▼

Source: ACPL Research, Company Financials

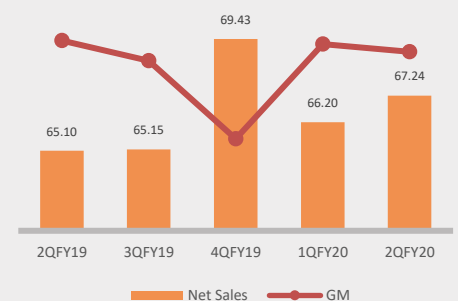
Key Statistics

Symbol	OGDC
TP - Dec 20	205.00
LDPC	124.70
Upside (%)	64.39
Free Float ('mn)	645
Market Cap. (Rs.'mn)	536,326

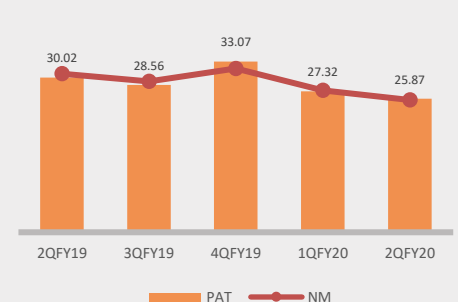
OGDC vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	210,625	162,867	171,829	205,335	261,481	268,042	277,671	282,789	278,000
Royalty	-23,737	-18,079	-18,519	-21,971	-29,336	-30,072	-31,152	-31,727	-31,189
Operating Expenses	-52,935	-54,986	-56,585	-60,213	-63,456	-61,382	-63,587	-64,759	-63,662
Transportation Charges	-1,986	-1,912	-1,721	-1,671	-1,628	-1,669	-1,729	-1,761	-1,731
Gross profit	131,967	87,890	95,004	121,480	167,062	174,920	181,204	184,543	181,418
Other income	19,186	14,703	16,020	16,008	32,288	16,084	16,112	16,126	16,113
Exploration and prospecting expenditure	-11,628	-14,548	-13,269	-16,190	-12,499	-20,907	-18,049	-18,381	-18,070
General and administration expenses	-4,308	-3,771	-4,240	-4,088	-4,129	-5,629	-5,415	-5,515	-5,422
Finance Cost	-2,550	-1,718	-1,515	-1,730	-1,693	-2,545	-3,021	-3,554	-4,151
Workers' profit participation fund	-6,686	-4,237	-4,691	-5,928	-9,295	-8,314	-8,771	-8,894	-8,723
Share of profit in associate - net of taxation	1,044	2,189	1,827	3,075	4,865	5,899	3,150	3,150	3,150
Profit before income tax	127,025	80,507	89,137	112,627	176,599	159,508	165,210	167,476	164,316
Income tax expense	-39,776	-20,537	-25,334	-33,890	-58,214	-52,580	-54,459	-55,206	-54,164
Profit for the year	87,249	59,971	63,803	78,736	118,386	106,928	110,751	112,270	110,151
EPS	20.29	13.94	14.83	18.31	27.53	24.86	25.75	26.10	25.61
EBITDA	6,752	8,304	10,124	11,658	12,139	14,717	17,938	21,866	26,655

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	-18.05%	-22.67%	5.50%	19.50%	27.34%	2.51%	3.59%	1.84%	-1.69%
Royalty	-20.13%	-23.84%	2.43%	18.64%	33.52%	2.51%	3.59%	1.84%	-1.69%
Operating Expenses	8.40%	3.87%	2.91%	6.41%	5.38%	-3.27%	3.59%	1.84%	-1.69%
Transportation Charges	-16.85%	-3.72%	-9.99%	-2.91%	-2.57%	2.51%	3.59%	1.84%	-1.69%
Gross profit	-25.05%	-33.40%	8.09%	27.87%	37.52%	4.70%	3.59%	1.84%	-1.69%
Other income	0.31%	-23.37%	8.96%	-0.08%	101.70%	-50.19%	0.17%	0.09%	-0.08%
Exploration and prospecting expenditure	33.30%	25.12%	-8.80%	22.02%	-22.80%	67.27%	-13.67%	1.84%	-1.69%
General and administration expenses	45.31%	-12.48%	12.44%	-3.58%	1.01%	36.32%	-3.80%	1.84%	-1.69%
Finance Cost	15.69%	-32.63%	-11.83%	14.21%	-2.16%	50.37%	18.69%	17.64%	16.81%
Workers' profit participation fund	-26.30%	-36.62%	10.72%	26.35%	56.80%	-10.55%	5.50%	1.40%	-1.92%
Share of profit in associate - net of taxation	816.28%	109.72%	-16.52%	68.28%	58.23%	21.25%	-46.60%	0.00%	0.00%
Profit before income tax	-26.30%	-36.62%	10.72%	26.35%	56.80%	-9.68%	3.57%	1.37%	-1.89%
Income tax expense	-17.88%	-48.37%	23.36%	33.77%	71.77%	-9.68%	3.57%	1.37%	-1.89%
Profit for the year	-29.59%	-31.26%	6.39%	23.40%	50.36%	-9.68%	3.57%	1.37%	-1.89%
EPS	-29.59%	-31.26%	6.39%	23.40%	50.36%	-9.68%	3.57%	1.37%	-1.89%
EBITDA	19.29%	23.00%	21.91%	15.14%	4.13%	21.24%	21.88%	21.90%	21.90%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	62.65	53.96	55.29	59.16	63.89	65.26	65.26	65.26	65.26
NP Margin	%	41.42	36.82	37.13	38.35	45.28	39.89	39.89	39.70	39.62
ROE	%	19.72	12.53	12.44	14.30	18.93	15.35	14.44	13.35	12.10
ROA	%	15.75	10.17	10.17	11.81	15.44	13.06	11.90	10.56	9.04
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	3.55	4.32	6.39	7.35	7.02	6.67	7.22	7.42	7.44
Quick	x	2.33	2.22	2.51	4.27	4.76	5.98	6.51	6.72	6.75
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	213.14	246.08	229.91	231.89	237.99	209.94	215.13	213.33	209.59
Inventory Days		1.71	1.48	1.59	1.57	1.53	1.74	1.70	1.71	1.74
Receivables Days		0.87	1.06	1.74	1.42	11.46	11.17	10.80	10.62	10.79
Payables Days		287.25	225.53	186.10	159.77	191.27	193.93	184.63	187.81	194.56
Operating Cycle		-284.67	-222.99	-182.78	-156.78	-178.27	-181.02	-172.13	-175.48	-182.03
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		7.75	5.20	6.00	10.00	11.00	8.50	8.50	10.00	10.00
Div. Yield	%	6.21	4.17	4.81	8.02	8.82	6.82	6.82	8.02	8.02
Dividend Cover	x	2.62	2.68	2.47	1.83	2.50	2.92	3.03	2.61	2.56
Retention	%	61.80	62.71	59.55	45.38	60.04	65.81	66.99	61.69	60.95
Payout	%	38.20	37.29	40.45	54.62	39.96	34.19	33.01	38.31	39.05
No. of Shares	('m)	4300.93	4300.93	4300.93	4300.93	4300.93	4300.93	4300.93	4300.93	4300.93
EPS		20.29	13.94	14.83	18.31	27.53	24.86	25.75	26.10	25.61
BVPS		102.89	111.29	119.27	128.01	145.40	161.93	178.29	195.54	211.64
P/E	x	6.15	8.94	8.41	6.81	4.53	5.02	4.84	4.78	4.87
Sales per share		48.97	37.87	39.95	47.74	60.80	62.32	64.56	65.75	64.64
P/BV	x	1.21	1.12	1.05	0.97	0.86	0.77	0.70	0.64	0.59
P/S	x	2.55	3.29	3.12	2.61	2.05	2.00	1.93	1.90	1.93
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	53.03	49.06	61.74	67.76	107.96	64.62	57.55	49.74	41.93

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- III. Relative Valuation Model
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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
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