JS Research

August 10, 2010

Pakistan Market

MORNING BRIEFING

OGDC: FY10 result preview

KSE100 Index: Closing 10026.20 ↓ (-289.00)

The board of directors of OGDC is meeting on August 12, 2010 to announce the company's FY10 financial results. We expect the company to announce EPS of Rs13.0, depicting a meager growth of 1%YoY. The company is also expected to announce final cash dividend of Rs2.5 per share taking the full year payout to Rs6.5. Currently, the stock is trading at FY11F PE of 9.6x, and we maintain our 'Hold' call on the stock.

FY10 EPS likely at Rs13.0

We expect OGDC to post a net profit of Rs55.9bn (EPS Rs13.0) versus a profit of Rs55.5bn (EPS Rs12.9) in the corresponding period last year, reflecting a YoY growth of 1%. Net sale for the period is likely to stand at Rs144bn versus Rs130bn in the same period last year. The expected growth in the company's top line is mainly attributed to recovery in crude oil price in FY10. The average Arab Light price during FY10 stood at US$74.7 per barrel versus an average of US$67.8 per barrel recorded in the previous fiscal year. Moreover, recording of Rs8.8bn retrospective benefit arising from revision in Qadirpur's wellhead prices in the 2QFY10 has also contributed to OGDC's top line. However, the impact of higher hydrocarbon prices is likely to be partially offset by 4%YoY fall in oil and gas production for the company.

In line with the revenue growth, royalty expense is also expected to witness a growth of 10%YoY and is likely to stand at Rs16.7bn. Similarly, exploration expenses are also expected to depict a growth of 10%YoY to arrive at Rs8.2bn. On the contrary, other income is likely to stand around Rs3bn, down 11%YoY mainly on the back of lower cash balance available with the company.

Production down 4%YoY in FY10

Company's combined oil and gas production in FY10 stood at 195k boepd (barrels of oil equivalent per day), as against 202k boepd in FY09. Oil production alone posted a decline of 8% as it stood at 38.5k bpd (barrels per day) versus 41.6k bpd in the same period last year. This fall in production was mainly due to lower oil production from Bobi, Chanda, Kunar, Sono and Buzdar fields. Similarly, the company's gas production fell to 975mmcfd (million cubic feet per day), a decline of 2%YoY mainly owing to lower production from Qadirpur and Uch fields. With recent production addition from Manzlai, Makori and Nashpa, and further new flows expected from Mela and Qadirpur, we expect company's production to stabilize going forward.

Recommendation: 'Hold' maintained

Currently the stock is trading at FY11F PE of 9.6x and offers FY10E dividend yield of 4.5%, hence at these levels, we maintain our 'Hold' stance on OGDC.

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Also in focus

Cotton prices on the rise again

Cotton prices after coming down to Rs5,800 per maund on the back of global and local bumper crop expectations have started to rise again locally as the floods in the country are likely to destroy a significant share of the crop. Cotton prices currently stand at Rs6,750 per maund.

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