

August 13, 2010

## Pakistan Market

## OGDC: FY10 conference call takeaways

MORNING BRIEFING



KSE100 Index: Closing 9792.81 ↓ (-82.87)

OGDC announced its FY10 result yesterday, posting an EPS of Rs13.8, a growth of 7%YoY. The announcement was followed by an analyst conference call to discuss the result and future outlook of the company. The management not only provided an update on key development projects, but also revealed its CAPEX and drilling target for FY11.

In addition, news on production flows from flood affected fields was also provided. The circular debt issue however remains a key risk to the company's production plans. At current levels, we maintain our 'Hold' stance on OGDC.

### FY10 EPS at Rs13.8, up 7%YoY

The company posted net profit of Rs59.2bn (EPS Rs13.8) as compared to earnings of Rs55.5bn (EPS Rs12.9) last year, a growth of 7%YoY. Net revenue stood at Rs142.6bn, up 9%YoY mainly on the back of recovery in crude oil prices and recording of a retrospective benefit arising from revision in Qadirpur's wellhead prices. Operating expenses for the company in the period settled at Rs23.7bn versus Rs22.7bn in FY09. Moreover, the exploration expense also increased by 6% to Rs7.9bn. Other income remained flat at Rs3.3bn. Higher than expected earnings were mainly driven by lower effective tax rate of 33% in FY10 versus ~39% recorded in 9MFY10.

As a negative surprise, OGDC announced lower than expected Rs1.5 per share as final cash dividend. This was in addition to the interim dividend of Rs4.0 per share already paid in previous quarters. We believe, the payout was plagued by liquidity issues arising due to the prolonged circular debt situation.

### More clarity on development projects

Regarding Sinjhor development project, the management has decided to develop the field on its own by relocating Dhodak Plant to Sinjhor. The project is expected to be completed by June 2011, adding 3,000-3,500 bpd oil and 25-30 mmcf of gas to company's total production. For development of the KPD/TAY project, the company has

already floated a tender which is expected to be finalized by August 30. OGDC is hopeful to complete the project by May 2012 and is expected to produce oil and gas in the vicinity of 4,400bpd and 284mmcf, respectively. The anticipated completion date of Qadirpur compression project is still intact and new gas flows are expected by September 2010. Details regarding completion targets and expected flows from other key projects are highlighted in the table below.

#### Key development projects

Projects	Expected production addition			Target Date
	Oil (bpd)	Gas (mmcf)	LPG (M.ton/day)	
Sinjhor	3,000-3,500	25-30	120-14	Jun-11
KPD/TAY	4,400	284	387	May-12
Qadirpur	-	150	-	Sep-10
Dakhni expansion	720	12	12	Oct-11
Uch II *	-	160	-	-
Jhal Magsi	-	15	-	Mar-12

Source: OGDC

\* Target date is 18 months after the contract is awarded

### Circular debt: Key risk to CAPEX targets

The circular debt continues to remain a key concern for the management, as it has already started to effect the company's payout and CAPEX targets. Moving ahead, the company has set an aggressive CAPEX target of US\$800mn for FY11 along with a drilling target of 42 wells (drilling of 11 wells is subject to security clearance), significantly higher than ~US\$290mn incurred in FY10. In our opinion, the target seems optimistic given the current liquidity constraints which could eventually compel the company to either compromise on its drilling and development plans or leveraging its balance sheet to meet cash flow requirements. To highlight, OGDC's trade receivables have crossed Rs80bn level whereas payables have risen to Rs28.6bn as of June 2010.

### Production restored from flood affected fields

Regarding production stoppage from Nashpa, Mela, Dakhni and Qadirpur fields due to floods, the management indicated

that production from all four fields has resumed and hydrocarbon flows are back at normal levels.

### Recommendation: 'Hold' maintained

Though now there is more clarity on future production flows, the key risk to our investment thesis remains the circular debt which is not only denting the payout ability of the company, but also posing threat to the materialization of its short to medium term exploration and development projects. At current levels, we maintain our 'Hold' stance on OGDC and flag PPL and POL as more attractive investment opportunities in the E&P sector.

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### Also in focus

#### FABL to pay Rs42bn for remaining RBS shares

After announcing for acquisition of the remaining RBS shares late last week, Faysal Bank (FABL) has furnished the official public offer document for the deal today. It disclosed that it will be paying Rs3.89/share (or Rs42bn) for the acquisition of the remaining 10.9mn shares (or 0.63% stake) from the public. FABL has already won the bid to acquire 99.37% of shares of RBS Pakistan for a consideration of Euro 41mn, with the deal now expected to be completed in the next couple of months. We currently maintain our 'Hold' call on the scrip.

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